INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

HEARINGS

BEFORE THE

TEMPORARY NATIONAL ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

SEVENTY-SIXTH CONGRESS

SECOND SESSION

PURSUANT TO

Public Resolution No. 113
(Seventy-fifth Congress)

AUTHORIZING AND DIRECTING A SELECT COMMITTEE TO MAKE A FULL AND COMPLETE STUDY AND INVESTIGATION WITH RESPECT TO THE CONCENTRATION OF ECONOMIC POWER IN, AND FINANCIAL CONTROL OVER, PRODUCTION AND DISTRIBUTION OF GOODS AND SERVICES

PART 18

IRON AND STEEL INDUSTRY
IRON ORE

NOVEMBER 1, 2, AND 3, 1939

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[1] On file with the Committee.

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INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

WEDNESDAY, NOVEMBER 1, 1939

United States Senate,
Temporary National Economic Committee,
Washington, D. C.

The committee met at 10:40 a. m., pursuant to adjournment on Friday, October 27, 1939, in the Caucus Room, Senate Office Building, Senator Joseph C. O'Mahoney presiding.

Present: Senator O'Mahoney (chairman); Representative Sumners (vice chairman); Senator King; Representatives Reece and Williams; Messrs. Arnold, Henderson, Avildsen, Lubin, O'Connell, and Brackett.

Present also: Willard Thorp and John V. W. Reynders, representing the Department of Commerce; Willis Ballinger, representing the Federal Trade Commission; Theodore Kreps, economic adviser to the committee; A. H. Feller, special assistant to the Attorney General; John W. Porter, Irving B. Glickfeld, Hyman B. Ritchin, Ward S. Bowman, and Monroe Karasik, Department of Justice.

The Chairman. The committee will please come to order. This hearing will be opened by Assistant Attorney General, Mr. Thurman Arnold. Mr. Arnold.

STATEMENT BY MR. ARNOLD

Mr. Arnold. Mr. Chairman, this morning the Department of Justice begins the presentation of testimony and materials relating to the iron and steel industry. The importance of a study of this industry in any consideration of national economic problems cannot be emphasized too strongly. Our industrial civilization is fundamentally based on steel. Automobiles, agricultural implements, machinery, containers, railroads, shipbuilding, construction, and innumerable other industries depend on the steel industry for their most essential raw material. The steel industry itself constitutes a major segment of our economy. It ranks first among manufacturing industries in the number of its employees and third in the value of product. The total capital investment by the companies who are its members is in excess of $4,000,000,000; the annual value of its products is nearly $3,000,000,000; and it employs in the neighborhood of 600,000 people.

In his message to the Congress requesting the investigation with which this committee has been charged the President said, "One of the primary causes of our present difficulties lies in the disappearance of price competition in many industrial fields, particularly in basic manufacture where concentrated economic power is most evident and where rigid prices and fluctuating pay rolls are general". It is widely believed that these phenomena are characteristic of the iron and steel

industry. The existence in this industry of a small number of very large producers is a matter of common information. The charge is frequently made that this concentration is accompanied by other manifestations of monopoly power and that the prices of many steel products are artificially maintained.

For a number of months the Department of Justice has conducted a painstaking study of the practical implications of this concentration and of the extent to which this charge may be warranted. With the cooperation of members of the industry, facts and statistics have been and are being assembled and analyzed. These should tell us more about the industry than we have ever known before.

The hearings which begin today will be concerned mainly with price, the primary regulating mechanism in a free, competitive society. But while the emphasis will be upon price—what it is, how it is made, what factors are responsible for its behavior—other subjects within the sphere of this committee's inquiry will be touched upon. It should be emphasized that these hearings deal only with a part of the Department's study. From time to time within the next few months reports on other aspects of the industry will be made to the committee.

Our aim at this time is to show how the industry actually operates in the present and how it has operated in the very recent past. So far as possible matters primarily of a theoretical nature have been eliminated.

I must emphasize that in these hearings the Department takes no attitude for or against the industry or for or against any particular company. Nor will it here present any judgment upon the industry or make any recommendation with respect to public policy. Such judgments and recommendations will be presented in due time after the material has been placed before the committee. At this time, we conceive our task to be to show you the facts.

Important as a consideration of this industry would be in normal times, it is all the more important when we stand under the shadow of the European war situation. Steel is the metal of war as well as of peace. Extraordinary demands will be made upon the industry in the near future. With these demands will come responsibilities which the industry must meet if our own national well-being is not to suffer as a result of Europe's war. We, as neutrals, have a great task before us—to see to it that our economy is not distorted because of someone else's war. It was therefore with considerable gratification that the Department noted some weeks ago the decision of the major units of the industry to confirm existing published prices to the end of the current year. I do not pass judgment at this time on the problems which will beset the industry in the coming difficult months, but I confidently trust that the patriotic spirit which prompted that decision will continue to rule the industry's decisions in the future.

Now, Mr. Chairman, I will turn the presentation of our material over to Mr. A. H. Feller.

The CHAIRMAN. Mr. Feller, do you want to present a statement?

Mr. FELLER. At the outset, Mr. Chairman, I should like to offer for the record the pamphlet entitled "Major Characteristics of the Iron and Steel Industry." This pamphlet was prepared by the staff of the department and the text which it contains is in the nature of background information. We have tried so far as possible to eliminate

anything of a controversial nature. I suggest that it would be useful to the committee to refer to the text, charts and tables in this pamphlet from time to time during the hearing.

The CHAIRMAN. Without objection the pamphlet may be made a part of the record.

(The pamphlet referred to was marked "Exhibit No. 1349" and is included in the appendix on p. 10391.)

The CHAIRMAN. A few days ago, before the hearing was scheduled to have opened, representatives of one of the large steel companies, the United States Steel Corporation, approached the Department of Justice and the chairman of the committee with the suggestion that a motion picture showing the steel industry as a unit might be advantageous to the committee. The committee was quite agreeable to that presentation. It will now be made before we proceed with the testimony.

In order to make it convenient I will ask the members of the committee to take their seats in these chairs that face the screen.

(The motion picture "Steel, the Servant of Man," as produced for the United States Steel Corporation, was shown to the committee. The narration by Mr. Edwin C. Hill is included in the appendix on p. 10446.)

The CHAIRMAN. The committee will please come to order. Have the photographers completed their work?

Before turning the hearing over to Mr. Feller, who will act on behalf of the Department of Justice in presenting the testimony, it may be appropriate for the chairman to express the appreciation which the committee feels for the opportunity of witnessing this motion picture which has just been thrown on the screen. I am sure nobody could fail to be impressed by the magnitude of this industry. Nobody could fail to be impressed by the precision of the machines which have been made by men to mold steel into the various forms in which it is used by society.

I notice that the picture was entitled "Steel, the Servant of Man," and that on numerous occasions, as the scenes were being flashed before our eyes, Mr. Edwin C. Hill called attention over and over again to the fact that the purpose of this industry is actually to serve mankind.

I couldn't help but think that this is one industry, only one; this committee has just listened for 3 weeks to part of the story of the petroleum industry. It has been studying numerous other industries, all of which are built probably on the same proportions as the steel industry, but the thought which is left with me is that while this physical perfection has been attained by mankind in building these wonderful industries, there still remains the discovery of the formula by which the human resources of society may be conserved as well as the material resources are conserved as indicated by this picture. That, I take it, is the fundamental work of this committee, to study how we may gear together all of these tremendous industries that mankind has developed so as to make it possible to provide security for all men, so as to provide a solution for the problem of unemployment—unemployment of men and unemployment of capital—which remains with us in spite of all these tremendous achievements of industry.

I am sorry to have taken this time to make these remarks, but the picture seemed to me to indicate the desirability of pointing out what seems to me to be the primary lesson of this picture.

Mr. Feller, are you ready to proceed?

Mr. FELLER. Mr. Chairman, I think it might be of some use to the committee if I outlined in a very few words the general substance with which this hearing will deal. We will start literally from the ground up, with the iron-ore industry, the testimony on which will take the next few days. We will then proceed to consideration of the general price policies of the steel industry and then, due to the complexity of the industry, center our attention on price behavior and price policies in certain specific product categories, some of the products that the committee saw in the process of manufacture in the motion picture.

Finally we will conclude the hearing with a consideration of exports, the relations between the American steel industry and the rest of the world.

In beginning the iron-ore industry we will first call on Mr. Elton Hoyt.

The CHAIRMAN. Do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing by the truth, so help you God?

TESTIMONY OF ELTON HOYT II, MANAGER AND PARTNER, PICKANDS, MATHER & CO., CLEVELAND, OHIO

Mr. HOYT. I do.

Mr. FELLER. Mr. Hoyt, will you give your full name to the reporter?

Mr. HOYT. Elton Hoyt, II.

Mr. FELLER. And the company with which you are associated?

Mr. HOYT. Pickands, Mather & Co.

Mr. FELLER. And what is your position in that company?

Mr. HOYT. I am manager and partner.

Mr. FELLER. How long have you been a member of this partnership?

Mr. HOYT. I think since '18.

Mr. FELLER. What are your general duties?

Mr. HOYT. Well, they are principally executive, but my experience has come up primarily through the iron-ore end of the business.

Mr. FELLER. You are also, are you not, a director of the Interlake Iron Corporation?

Mr. HOYT. I am.

Mr. FELLER. And a director and vice president of Interlake Steamship Co.?

Mr. HOYT. That is correct.

Mr. FELLER. And also president and director of the Mather Iron Co.?

Mr. HOYT. That is correct.

Mr. FELLER. I offer for the record the map entitled "Movement of Lake Superior Iron Ore."

The CHAIRMAN. It may be received.

(The map referred to was marked "Exhibit No. 1350" and is included in the appendix facing p. 10424.)

Mr. FELLER. Mr. Hoyt, looking at this map, I want to call your attention first to the broad band indicating the movement of iron ore through the Great Lakes. From what States does this iron ore come?

Mr. HOYT. The broad band represents the shipments from Minnesota, Wisconsin, and Michigan. It is usually called the Lake Superior district.

Mr. FELLER. About how much of the iron ore consumed in the United States comes from this district?

Mr. HOYT. Well, approximately 85 percent.

Mr. FELLER. Mr. Chairman, it might be of interest to the committee if at this point I indicated what other sources there are for iron ore as consumed in the United States. As Mr. Hoyt has said, 85 percent of the iron ore consumed comes from the Lake Superior region, the Lake Superior district. The other two large sources are imports, which are indicated on the map by lines reaching into several ports. About 80 percent of the imported ore moves to Sparrows Point, the plant of the Bethlehem Steel Corporation near Baltimore.

The largest producing State outside of the three that Mr. Hoyt has mentioned is the State of Alabama. There are also iron-ore deposits which are being mined in New York, Pennsylvania, Utah, and Colorado, and smaller ones in some other States.

The CHAIRMAN. Don't forget Wyoming.

Mr. FELLER. And Wyoming.

The CHAIRMAN. Near my own home in Cheyenne we have Iron Mountain, which is an untouched deposit of iron ore. Iron deposits at Guernsey, Wyo., are, I am informed, the principal source of supply for the Colorado Fuel & Iron Co., which operates at Pueblo, Colo.

Mr. FELLER. I am glad to have that correction, Senator.

The VICE CHAIRMAN. While we are interrupted, Mr. Chairman, may I suggest for the record and for brevity of procedure that those factual references to iron which are not controverted be stated as facts, rather than to draw them out from the witness by question and answer? I rather appreciate what you have just done, as one member of the committee. For those things that are not controverted I can't see any reason why, as an individual member of the committee, they should be drawn out question by question.

Senator KING. I share that view—those which are noncontroversial, and the facts with which at least some of us are partially familiar you might state as facts.

The CHAIRMAN. Before the hearing began, at the outset, before Senator King appeared and before Vice Chairman Sumners appeared, Mr. Feller presented for the record and laid on the desk of each member a pamphlet entitled "The Major Characteristics of the Iron and Steel Industry," which I think contains a good deal of this uncontroverted material.

Mr. FELLER. We intend to follow that procedure, Senator. At present we are going to ask Mr. Hoyt to give something of the history and background of the Lake Superior district, which, as has been stated, produces 85 percent of the iron ore. That description by Mr. Hoyt will give us most of the background of this industry.

Can you tell us something about the background?

Mr. HOYT. If it is satisfactory, I wrote a few notes on this for brevity and accuracy, which I will read, Mr. Chairman.

HISTORY AND BACKGROUND OF THE IRON ORE INDUSTRY

Mr. Hoyt. While from a geological standpoint iron ore was known to exist in what is now called the Lake Superior district prior to 1800, its actual discovery from a commercial point of view did not take place until the middle of the last century. On July 7, 1852, the Marquette Iron Co. shipped 6 barrels of ore to New Castle, Pa., which represented the first shipment by the Great Lakes.

The Marquette Range, as shown on the chart, is located just south of Lake Superior, on the Upper Peninsula of Michigan. In 1853 the Cleveland Iron Mining Co., which was the forerunner of the Cleveland-Cliffs Iron Co., became active on this range and took over the Marquette Iron Co. in that year. The year following, 1,000 tons of ore were shipped from this district and 1854 is therefore credited as the first year of iron-ore shipments in any volume, but it was not until the completion of the canal at Sault Ste. Marie in 1855 that the present iron-ore industry really got under way.

A few years later the Menominee Range, also in Michigan, started operations. Early in 1870 enough ore had been developed on the Menominee Range, south of the Gogebic, to warrant mining, but shipping was delayed until 1877, until the Chicago & Northwestern Railway Co. had built a line from Quinnesec to Escanaba and the initial shipment from this territory amounted to about 10,000 tons. The ore found on the Menominee, while mined by underground methods, is nearer the surface and, while of good structure, on the average is high in phosphorus, an element undesirable in the manufacture of basic iron.

In 1884 the first ore from the Gogebic Range was produced from the Coulby Mine. This range, as you can see on the chart, is located partly in Michigan and partly in Wisconsin and the ore produced therefrom is shipped through the port of Ashland on Lake Superior.

Until this period the production and shipment of iron ore were confined to the State of Michigan and a relatively small tonnage from Wisconsin, but for a number of years prior to this date rough exploration had been going on in what is now known as the Vermillion Range in Minnesota located 80 miles north of Lake Superior. Before development could actually get under way it was necessary to build a railroad to the Lake and loading facilities at its terminal. In 1882 the Minnesota Iron Co. was organized and during the next 2 years this company built the railroad known as the Duluth & Iron Range Railway and shipments actually commenced in 1884.

The ranges herein briefly mentioned, particularly the Marquette, Gogebic, and Vermillion, generally spoken of as the old ranges, were noted for the quality of the ore, high in iron content and coarse in physical structure, and the mines located thereon from which the ore is produced are generally deep shaft mines, a number of them being several thousand feet in depth.

With the gradual growth of the iron and steel industry during this period, shipments from the four ranges had increased to a total yearly tonnage in excess of 9,000,000 tons by the year 1892. A few years prior to this time, ore had been discovered on the eastern and western ends of what is now known as the Mesabi Range, but in both instances the ore was of low grade and not merchantable in comparison with ore from the old ranges. In 1891 and 1892 Mountain Iron and

Biwabik mines were located and with the completion of the Duluth, Mesabi & Northern Railway in 1892 shipments actually commenced; in the following year a total of 10 mines were operating and produced a little over 600,000 tons. Mesabi is a Chippewa word meaning giant and this range is therefore properly named, as the shipments increased until in 1937 a total of 45,000,000 tons was shipped in 1 year.

It was not until 1911 that the Cuyuna Range was commercially developed, although it was known that ore existed in this locality for a number of years earlier. This range is particularly noted for large tonnages of what is known as manganiferous ore, running from 7 to 9 percent in natural manganese and while it is not possible to use these ores in the manufacture of ferromanganese and spiegel, the manganese content is beneficial in the manufacture of higher manganese pig irons.

The rapid development of the Mesabi Range was held back for a considerable period of time due to the fact that the structure of the ore was materially finer than that produced from the old range. However, the ore in the Mesabi is near the surface and by stripping the overburden the ore can be produced by open pit methods at marked decreased cost compared to deep shaft mining.

As improved methods of blast furnace practice enabled the use of the finer ores in increasing quantities, aided of course by the cheaper cost of mining, the development of the Mesabi Range really came into its own. At the end of the year 1938 a total of 1,700,000,000 gross tons of iron ore had been shipped from the six principal ranges, indicating the growth of the steel industry, keeping pace with the general industrial expansion during the first part of the present century. The location of these ranges in close proximity to the Great Lakes resulted in the development of bulk freighter transportation and the movement of the ore to lower lake ports where it met coal produced from the States of Kentucky, West Virginia, Pennsylvania, and Ohio, brought about in large measure the industrial growth of the Middle West area to the point with which we are all familiar today.

Prior to 1900 the mines were principally developed by companies organized for that purpose or by individuals. Many of the lumber companies in Minnesota found that when their timber was being exhausted their lands contained large quantities of high-grade iron ore and they either developed these mines themselves, or leased them to companies or individuals, and also the railroads, in acquiring rights-of-way, became owners of iron-ore lands. In 1899 a maximum of 95 individual mines were operating and shipping ore, but many of these, of course, were under the same ownership or operation.

Some of the iron and steel companies had acquired interests by this time in iron-ore mines, but to a large extent the producers of iron and steel relied for their supplies through purchases on the market. It is commonly known that on the formation of the United States Steel Corporation those interested in this consolidation felt it desirable to protect the large investment in steel plants by actual ownership of iron ore reserves and in 1901 the Minnesota Iron Co., which by this time had extended its activities from the Vermillion Range to the Mesabi, and other mining companies, were included in the consolidation. These properties are now operated by the Oliver Iron Mining Co.

Mr. Feller. Mr. Chairman, I think at this point I should call the committee's attention to the fact that the process of acquisition of these properties by the Oliver Iron Mining Co., a subsidiary of the U. S. Steel Corporation, was the subject of investigation by a committee of the House of Representatives in 1911, a committee known as the Stanley committee. For the record, I think I might give the citation of the Stanley committee report. It is House Report No. 1127, Sixty-second Congress, second session, and the discussion of this subject commences on page 52.

The Chairman. Does that report contain any recommendation?

Mr. Feller. The report was a report on the U. S. Steel Corporation as a whole, and it was one of the matters which was in a sense preliminary to the institution of the suit by the Department of Justice against the U. S. Steel Corporation.

Mr. O'Connell. Could you in a few words tell us something about that report? I doubt very much if the members of the committee are apt to read the report.

Mr. Feller. On the matter which is now being discussed?

Mr. O'Connell. Yes; particularly with reference to this point.

Mr. Feller. Briefly, I think perhaps it would be best if I read a few extracts from the pages indicated. The Stanley committee reported, and here I quote [reading]:

> This great ore body was first discovered by Alfred and Leonidas Merritt in 1891. They formed one company for the development of these mines and another for the construction of a railroad from the Mesabi Range to Lake Superior.

I will skip a few lines here [continuing]:

> In order that they might extend their railroad into Duluth and construct ore docks there and for other purposes, the Merritts borrowed about $420,000 from Rockefeller, hypothecating stock in these mining and railroad companies to the extent of many millions of dollars. This loan was called on short notice during the panic of 1893, and the Merritts lost their interest in the railroad and the Lake Superior ores, and Rockfeller obtained them.
>
> In detailing the transaction before this committee, Leonidas Merritt said:
>
> "By whatever means these properties may have been obtained this fact remains unquestioned: They were secured, together with the Duluth, Missabe & Northern Railroad, for a sum not exceeding $420,000, and that the mines and railroad were immediately consolidated in a corporation, the Lake Superior Consolidated Iron Mines, capitalized at $29,413,905, which stock was, upon the formation of the United States Steel Corporation, exchanged for an issue of $39,708,771 of preferred and a like amount of common stock, or a total of $79,417,542."

I will skip a few lines here [Continuing]:

> The reasons for issuing to Mr. Rockefeller over $79,000,000 in the corporation's securities for properties which eight years previously had cost him $420,000 were twofold, viz: This company held by far the largest and richest ore mines on the continent, and it was highly probable that the Rockefeller interests, if they continued to retain control of this iron range, would go still more extensively into the business of manufacturing iron and steel products. The opportunity to at once secure these extensive holdings and to eliminate their last formidable competitor induced those in control of the United States Steel Corporation in the payment of an exorbitant price.
>
> Second. It was a necessary step in any effort to secure an effectual monopoly of the iron ores of the country.

In fairness to the Steel Corporation, I should say here that the testimony which will occupy the next day or two will show the extent to which the Corporation now holds iron-ore reserves and the extent to which it ships iron ore.

Mr. Hoyt. It is unnecessary to comment on the growth of the steel industry from 1900 to the present day, but as a result of large expenditures in steel producing units the owners of the properties became actuated by the same motive as mentioned above in the formation of the Steel Corporation and felt it not only desirable, but necessary to protect these plant investments with actual ownership of the necessary ore reserves. In fact, capital was not always available without the knowledge that ore reserves for a long period of time in the future were assured to the steel companies involved. For this reason, particularly from about 1910 to the present day, the steel companies, through interests in mining companies, or direct leasing of mines, have acquired their own ore supply to an extent that there is hardly a steel company today operating its own blast furnaces that has not from 50 to 100 percent of its ore supply under its own ownership, although in many instances these properties may be managed by ore companies.

It is estimated that the United States Steel Corporation, through the Oliver Iron Mining Co. and other subsidiaries, owns in the neighborhood of 50 percent of the Lake Superior iron-ore reserves and while exact percentages are not available, I would estimate that other integrated steel companies own by direct leases, or through ownership in mining companies, in the neighborhood of two-thirds of the balance, the remaining one-third owned by fee owners or merchant producers who are not producers of steel.

In years when the steel industry is running at a normal rate of capacity many of the steel companies' own supplies are augmented by spot purchases from the merchant producers and also by time contracts running usually for a period of several years. In 1931 the marked depression in business generally affected the steel industry to such an extent that in 1932 only a total of 3,500,000 tons was shipped from the Lake Superior district, as compared with a maximum tonnage of nearly 67,000,000 tons shipped in 1916 and a yearly average of the years from 1916 to 1931, inclusive, of about 52,000,000 tons. As is well known, during the next few years the operations of the steel industry continued at a low rate of capacity gradually improving in 1936 and in 1937 shipments again increased to a total of 63,000,000 tons. Exact figures are not available, but it is generally recognized that in a normal year about 85 percent of the ore produced from the Lake Superior district is shipped directly to users who have a direct ownership in the mines and in years when operations of the steel industry are curtailed this percentage is even larger.

As a matter of interest to the committee, it is generally believed that the known ore reserves in the Lake Superior district are in the neighborhood of 1,400,000,000 tons, of which by far the greatest percentage is in the State of Minnesota, and to supplement this tonnage there are large quantities of low-grade ore not now of commercial grade which will be made available as time goes on through improvements in the treatment and processing of low-grade ore.

Senator King. May I ask, are there any other minerals in your ores other than iron; is there any lead or copper or zinc?

Mr. Hoyt. Very little; practically none in the Lake Superior district.

Senator King. What is the iron percentage in the ore?

Mr. HOYT. In the average shipments they are something over 51 percent, in that neighborhood. Ores run up to 56 to 57, some a little higher on the old ranges.

Mr. FELLER. Mr. Chairman, I offer now a chart entitled "Percentage of Lake Superior Iron Ore Shipments by Major Iron Ore Companies."

The CHAIRMAN. The chart may be received.

(The chart referred to was marked "Exhibit 1351," and is included in the appendix on p. 10425.)

Mr. FELLER. I should like the committee to have these charts before it.

The chart itself is on the easel and a reproduction is now being distributed to the committee.

I should also like to offer a supporting table containing figures for the chart.

The CHAIRMAN. The table will likewise be received.

(The table referred to was marked "Exhibit No. 1352," and is included in the appendix on p. 10426.)

THE MAJOR IRON ORE PRODUCERS

Mr. FELLER. The committee will notice on this chart ("Exhibit No. 1352") the shipments of Lake Superior iron ore in the year 1937. Nineteen thirty-seven was one of the good years. The largest percentage of shipments indicated by the first bar is by the Oliver Iron Mining Co., a subsidiary of United States Steel Corporation. The percentage of shipments was in the neighborhood of 42 percent, as the table will indicate.

Mr. Hoyt, is it generally known in the industry, in the iron-ore industry that the Oliver Iron Mining Co. does not sell ore to companies which are not affiliates of the United States Corporation?

Mr. HOYT. Yes, sir.

Mr. FELLER. For the record, I should like to read a sentence from a letter which was sent to Mr. Thurman Arnold by Mr. Irving Olds, counsel for the United States Steel Corporation, the letter dated August 31, 1939. The sentence reads:

> There are no term and spot sales contracts between the Oliver Company or its affiliates and companies not wholly owned by the Steel Corporation.

Mr. Hoyt, The Pickands, Mather & Co., is represented by the second bar on the chart, is it not?

Mr. HOYT. Yes, sir.

Mr. FELLER. The committee should bear in mind the fact that during the next few days representatives from the companies, beginning with Pickands, Mather and including Cleveland-Cliffs Iron Co., the M. A. Hanna Co., Butler Bros. and Oglebay, Norton & Co., will appear to give testimony.

The CHAIRMAN. Mr. Hoyt, is your company an integrated company?

Mr. HOYT. In the sense of having steel plants connected; no, sir. We are managing operators of mines in the Lake Superior district.

The CHAIRMAN. And your business is the production and sale of ore?

Mr. HOYT. Primarily, Mr. Chairman, it is the production of ore for a number of steel companies for whom we operate the mines as managing agent.

The CHAIRMAN. Are those steel companies integrated companies?

Mr. HOYT. Of the total there of some 13,000,000 tons, I would say the big bulk of that, Mr. Chairman, probably over 12,000,000, goes directly to steel companies who have interests in these mines or own them outright and for whom we act as operating agent.

The CHAIRMAN. As I understand it, your company is merely the operating agent which is concerned solely in managing these mines, but these properties in turn are actually owned for the most part by companies which are engaged in the production of steel.

Mr. HOYT. That is correct.

Mr. FELLER. Mr. Chairman, I offer for the record a chart which appears on the easel, entitled "Financial Connections Between Major Iron Ore Companies and Steel Companies." Copies of the chart are now being distributed.

(The chart referred to was marked "Exhibit No. 1353" and is included in the appendix on p. 10427.)

FINANCIAL CONNECTIONS BETWEEN ORE COMPANIES AND STEEL COMPANIES

Mr. FELLER. It would be helpful to the committee if I explained in a few brief words the construction of this chart. The chart contains the names of a number of companies which will occur throughout the testimony to be given in the next few days. The first line of the chart contains the names of four companies engaged in the production, sale, and transportation of iron ore. These names are the same as the names which appear on the base chart of shipments ("Exhibit No. 1351") [1] with the exception of Butler Bros., which does not appear on the chart I am now discussing.

The second line of the chart contains the names of six steel companies with which one or more of the iron ore companies have financial connections. The third line of the chart contains the names of two banks which also have financial connections with three of the iron-ore companies and with one of the steel companies.

The steel companies which appear on the second line of the chart rank as follows in the industry, that is, in the steel industry, in terms of invested capital: The Republic Steel Corporation is third, the Youngstown Sheet & Tube Co. is fourth, the National Steel Corporation is sixth, Inland Steel Co. is seventh, the Wheeling Steel Corporation is ninth. Otis Steel Co. is smaller than any of these, having invested capital of about $36,000,000. The total capital investment of the steel companies on the second line of the chart constitutes approximately 23 percent of the capital invested in the steel industry.

As the legend at the bottom of the chart shows, the connections by virtue of the directorships are indicated by arrows. The connections by virtue of percentages of voting stock control are indicated by numbers that are placed in circles.

The CHAIRMAN. Will you give the order of size again of these six companies?

Mr. FELLER. Republic, third; Youngstown Sheet & Tube, fourth; National Steel, sixth; Inland Steel, seventh; Wheeling Steel, ninth.

The CHAIRMAN. Then the Otis Steel, have you given that a number?

Mr. FELLER. No; it is considerably smaller.

[1] Appendix p. 10425.

The CHAIRMAN. What about the total invested capital of all of these six as compared with one and two on the list which are not mentioned here?

Mr. FELLER. If the committee will turn to the pamphlet which I introduced at the outset, on page 15, table 16,[1] it will give the ranking of the 10 largest companies in the industry.

The CHAIRMAN. And that also shows the invested capital?

Mr. FELLER. That is right; in terms of invested capital.

Now, Mr. Hoyt, you have already stated in answer to a question by Senator O'Mahoney that your company is engaged primarily in the management of ore properties. When was your company founded?

Mr. HOYT. In 1883.

Mr. FELLER. Who was the founder?

Mr. HOYT. Col. James Pickands, Samuel Mather, and James C. Morse.

Mr. FELLER. What are your total approximate assets? Is $28,000,000 about right?

Mr. HOYT. Yes; $28,000,000.

Mr. FELLER. About how many ore-mining companies do you manage?

Mr. HOYT. I think there are 21 mining companies operating about 26 mines.

Mr. FELLER. And these mining companies are owned in part by various steel companies?

Mr. HOYT. That is correct.

Mr. FELLER. May I read off a list of the steel companies which are the main stockholders in these mining companies, and would you tell me whether that is correct: Youngstown Sheet & Tube, Bethlehem Steel Corporation, Pittsburgh Steel Co., Carnegie-Illinois Steel Corporation, Sharon Steel Hoop Co., Inland Steel Co., International Harvester Co., the Steel Co. of Canada, the Republic Steel Corporation, the Tonawanda Iron Corporation.

Mr. HOYT. That is right.

Mr. FELLER. Now, in managing these mines, you have a contract, do you not, with the iron-ore company?

Mr. HOYT. We do.

Mr. FELLER. And as I understand it, you have two contracts with each mining company, do you not, one a management contract——

Mr. HOYT (interposing). We have a management contract and then there is a stockholders' agreement to take ore which is between the stockholders in the company and the mining company.

Mr. FELLER. Would you describe very briefly what is contained in your typical management contract?

Mr. HOYT. A typical management contract employs the firm to operate the specific mine in question. The company agrees to furnish to the firm all of the necessary funds for exploration and development and equipment, and the necessary actual operating expenses, and to reimburse the firm for their out-of-pocket expense in their various departments strictly given over to this business, but without any payment of any kind to the partnership, to the partners individually. And then the compensation is arrived at by a flat rate per ton, usually on the shipments produced each year.

[1] "Exhibit No. 1349," at appendix, p. 10408.

Mr. FELLER. And what are the main terms of your stockholders' agreement to take ore, the stockholders being the steel corporations which own stock in the mine?

Mr. HOYT. Not entirely that, Mr. Feller, because I don't know whether you mentioned it but the Dalton Ore Co. in which we are interested and the Mather Iron Co. have minority interests in a number of these companies, but there are five or six stockholders, we will say, in a mining company and the stockholders' agreement sets up the obligations to those stockholders, and the stockholders to the company; in other words, that they will furnish the money to the company so that the company can furnish it to the operator for all the necessary expenditures of the mining company, and that they will agree to take their proportionate share of the ore, based on their stock ownership in the mining company each year, the production each year to be decided by the consent of the stockholders, by mutual agreement. They will take the ore forward each year in proportionate amounts at the cost of the mining to the company.

Mr. FELLER. And in each of these mining companies, Mr. Hoyt, it is true, is it not, that one of the partners of your company is the secretary-treasurer.

Mr. HOYT. No; I think it would not be true, Mr. Feller.

Mr. FELLER. Of about how many of the companies would that be true?

Mr. HOYT. I don't think there is a partner secretary and treasurer—not secretary, but treasurer, probably. I don't think the secretary is a partner, but the treasurer is a partner.

Mr. FELLER. Is that Mr. Bool, Mr. Samuel Bool?

Mr. HOYT. Yes.

Mr. FELLER. Turning to the chart entitled, "Financial Connections Between Major Iron Ore Companies and Steel Companies"[1]——

The VICE CHAIRMAN (interposing). May I ask a question? Do any of the owners of the mines have any interest in your company?

Mr. HOYT. No, sir.

Senator KING. May I ask a question? Was your company organized primarily to operate mines and develop ore bodies for other companies?

Mr. HOYT. Well, no, in 1883 their principal idea was to act as selling agents for pig iron and coal, and then it gradually worked into the related industries. Mr. Mather and Colonel Pickands were very active in developing the Lake Superior district; the Coulby mine on the Gogebic range was the first one to ship. They were active in getting that on a producing basis.

This situation has developed over a period of years into one where we are primarily operating.

Senator KING. Have any comparisons been instituted as to whether or not your operations ton per ton with comparable conditions, have produced or can produce ore on the surface cheaper than other companies?

Mr. HOYT. There have been records published in Michigan which indicate that as far as the Michigan mines are concerned, our records are very satisfactory compared with some of the other operators.

Senator KING. Was there any effort on the part of your company to exclude other mining operating companies from operating in that field in which your company was located?

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[1] "Exhibit No. 1353", appendix, p. 10427.

Mr. HOYT. No, sir; this relationship of ours and this operating business grew like "Topsy", you might say.

Senator KING. It started in in a small way and by reason, I suppose, of your technique and the skill which you developed, and the mechanical appliances which you employed, you found that you could operate more cheaply than those who owned the ores?

Mr. HOYT. I think that many of them feel there is a little more behind it than that, because back in say '15 and '16, back in about that time, we invited two or three steel companies to come into partnership with us in mines, specifically the Bennett and the Plymouth mines. Those mines were too big, we felt, for us to undertake, purely as producers and sellers of ore. They involved very large amounts of stripping and development, and it meant too big a production for us to be sure of a market, so at that time we proposed to five or six of these companies that they join with us in this mine and on that basis they agreed that we should operate that mine for its duration, or unless the company voluntarily surrendered it.

Then we went on from there—of course, prior to this time we were connected with a number of these other steel companies where we brought the mines to them and built up the organization, and they continued to have us operate them. Well, then in later days as these steel companies have become merged in many instances, the mines that were formerly in the hands of three or four companies became in one company and that one company, therefore, had a large interest in this property which either was tied up to us by contract or was only tied up for a short period of time. That is the way the picture grew.

Mr. FELLER. Mr. Hoyt, with respect to one of these steel companies, Youngstown Sheet & Tube Co., which is listed on this chart entitled "Financial Connection," the chart indicates that your company, Pickands, Mather & Co., is a large stockholder. By that I mean that the company and the partners own a substantial block of stock in Youngstown Sheet & Tube.

Mr. HOYT. Your chart shows 3.6 percent, or 3.5 percent.

Mr. FELLER. You hadn't calculated that?

Mr. HOYT. Well, I know that the firm itself, through Mather Iron Co., owns about 46,000 shares.

Mr. FELLER. That is right, and the members of the partnership owned about 1,000 shares?

Mr. HOYT. I can't testify as to that.

Mr. FELLER. Those figures were furnished by your company?

Mr. HOYT. Yes; and that is approximately correct.

Mr. FELLER. Now your senior managing partner, Mr. H. G. Dalton, is chairman of the executive board of Youngstown Sheet & Tube, is that correct?

Mr. HOYT. That is correct.

Mr. FELLER. And Mr. Dalton, it would be fair to say, is an important figure in the management of Youngstown Sheet & Tube?

Mr. HOYT. Yes; I would say that was correct.

Mr. FELLER. Is it correct that you managed practically all of the Lake Superior mines of the Youngstown Sheet & Tube?

Mr. HOYT. Yes.

Mr. FELLER. And that the Youngstown reserves constitute about 23 percent of all the reserves which your company controls?

Mr. HOYT. I don't know what you mean by "controls."

Mr. FELLER. I mean manages.

Mr. HOYT. Operates.

Mr. FELLER. Operates?

Mr. HOYT. If we have given you that figure, it is correct.

Mr. FELLER. The figure you gave us was. Your company also, Mr. Hoyt, manages a steamship company, does it not, the Interlake Steamship Co.?

Mr. HOYT. That is correct.

Mr. FELLER. And that company carries iron ore?

Mr. HOYT. Yes.

Mr. FELLER. How does it compare in rank among the fleets operating on the lakes?

Mr. HOYT. It is the second largest—has the second largest carrying capacity.

Mr. FELLER. The Interlake Steamship Co. which you manage carries all of Youngstown's ore, coal, and limestone, does it not?

Mr. HOYT. It does.

Mr. FELLER. And I believe your contract provides the carriage shall be at going rates?

Mr. HOYT. Correct.

Mr. FELLER. Now turning to the chart, it is also correct, is it not, that at one time Mr. H. G. Dalton, who you have said is a partner of your company, and also chairman of the board of Youngstown, was a director of the Bethlehem Steel Corporation?

Mr. HOYT. Well, when Bethlehem took over Lackawanna, the Lackawanna Steel Co., I think in '21 or '22, Mr. Dalton had been a director for many years in Lackawanna, I think, from the time that Lackawanna moved from Scranton to Buffalo, and I think for the time being he went on the Bethlehem board to represent the Lackawanna stockholders, the old Lackawanna stockholders.

Mr. FELLER. And he remained on the board of Bethlehem Steel until about 1930; is that correct?

Mr. HOYT. Yes; until 1930.

Mr. FELLER. And your company also manages most of Bethlehem's Lake Superior mines?

Mr. HOYT. Those in which they have an interest. I think all but one.

Mr. FELLER. And you have stated to the Department that the Bethlehem reserves constitute 33.9 percent of all the reserves which you manage?

(Mr. Hoyt, nodding head, yes.)

Mr. FELLER. Now, from time to time mention has been made of the Interlake Iron Corporation. What is the Interlake Iron Corporation?

Mr. HOYT. The Interlake Iron Corporation is the largest merchant producer of pig iron, which came about, I think, in '29.

Mr. FELLER. What is a merchant producer of pig iron, for the convenience of the committee?

Mr. HOYT. Well, a blast furnace that has no steel connections. In other words, it produces pig iron for the trade and sells its product as such.

Senator KING. Where is it located?

Mr. Hoyt. It has plants at Duluth, Chicago, Toledo, and Erie, and there was a merger of these four furnace companies in which the firm in the early days had an interest and supplied them with its iron-ore requirements.

Mr. Feller. And you are a director of the Interlake Iron Corporation?

Mr. Hoyt. That's right.

Mr. Feller. Your company owns, does it not, about 25 percent of the stock of Interlake Iron?

Mr. Hoyt. As of what date? Yes; about that.

Mr. Feller. And Interlake Iron, in turn, owns 40 percent of the voting stock of another company, the Dalton Ore Co., according to the figures submitted to us, Interlake Iron owning a total of 70 percent of all of the stock of the Dalton Ore Co. What is the Dalton Ore Co.?

Mr. Hoyt. At the time of the merger of these four blast-furnace companies one of the reasons for it from the standpoint of the large stockholders in the companies was to have an adequate ore supply which they owned, and the Pickands, Mather & Co.'s ore properties were put into Dalton Ore Co., and 70 percent of the stock was sold to Interlake Iron Corporation for its common stock.

Now, the reason for the difference in the ownership and voting stock was because, without connections with these other steel companies, as operators, we had to be left in the position of being able to have the voting in the meetings with the other stockholders as to new improvements and all that without interference from the Interlake, because we were in a position of managers and operators and partners with these companies, so that was all part of the arrangement when the ore was turned over to Interlake Iron Corporation, and it is subject to the limitation that none of the properties of Dalton Ore can be surrendered, or new properties taken into Dalton Ore without the approval of Interlake Iron Corporation.

Mr. Feller. And your company, Pickands, Mather, owns 60 percent of the voting stock of Dalton Ore?

Mr. Hoyt. For that reason, as I have explained.

Mr. Feller. Your company manages the Dalton Ore Co. properties, and is the sole and exclusive sales agent?

Mr. Hoyt. That is right; but you must just keep in mind that the Dalton Ore Co. as such is really the sum of the minority interests in these other mining companies that we have spoken of, a minority up to 50 percent of them.

Mr. Feller. You also have certain relations with the Steel Co. of Canada, do you not?

Mr. Hoyt. We do.

Mr. Feller. As I understand it, Mr. H. G. Dalton, one of your partners, is a director of the Steel Co. of Canada.

Mr. Hoyt. That is correct.

Mr. Feller. And all the interests of the Steel Co. of Canada in Lake Superior mines are managed by your company?

Mr. Hoyt. That is correct.

Mr. Feller. Going back for a moment with respect to Interlake Iron Corporation, Interlake Iron buys all its ore requirements from Dalton Ore, does it not?

Mr. Hoyt. Providing that the interests of Dalton Ore, the mines in which they are interested, can produce sufficient to satisfy their

requirements, and sufficient of the right kind of grade. Otherwise they can buy outside.

Mr. FELLER. And the purchases which Dalton Ore make for Interlake Iron are at current market prices?

Mr. HOYT. Yes.

Mr. FELLER. Now, lastly, in order to complete the elucidation of the chart, Mr. H. G. Dalton is a member of the board of directors of the National City Bank of Cleveland, is he not?

Mr. HOYT. Yes.

Mr. FELLER. Then, in summary, we may say, may we not, that the various companies with which Pickands, Mather & Co. and its partners have financial connections are Youngstown Sheet & Tube, Interlake Iron, Dalton Ore, the Steel Co. of Canada, and the National City Bank of Cleveland, connections by way either of stock ownership or of a directorship, and you formerly had a connection with Bethlehem Steel Corporation.

Senator KING. Did he assent to that?

Mr. HOYT. Yes; that is true, sir.

Mr. FELLER. Mr. Chairman, the purpose of calling Mr. Hoyt at this time was to place his company in the general picture of the industry. We should like to release Mr. Hoyt now, and call him later in the hearing for further matters that may be elucidated.

The CHAIRMAN. Are there any questions to be addressed to Mr. Hoyt now by any other members of the committee?

Senator KING. I prefer to defer any interrogatories until he comes back, when we will have had an opportunity to examine these charts.

The CHAIRMAN. Would you be good enough to list these companies again, please?

Mr. HOYT. In which we have an interest?

The CHAIRMAN. Yes.

Mr. HOYT. Interlake Iron Corporation; Dalton Ore is the ore company; Youngstown Sheet & Tube, in which we have only 3.5 percent interest according to the chart, and Interlake Steamship Co.

The CHAIRMAN. And the National City Bank of Cleveland?

Mr. HOYT. The only way we have any connection there, Mr. Dalton has been a director of the National City Bank.

The CHAIRMAN. Are these the three companies?

Mr. HOYT. You [to Mr. Feller] mentioned Steel Co. of Canada. Mr. Dalton is a director of the Steel Co. of Canada.

Senator KING. Does that company have any operating mines in the United States?

Mr. HOYT. They have interests in these mining companies such as I have described, sir.

The CHAIRMAN. Where is your company chartered—by what State?

Mr. HOYT. I didn't hear that, sir.

The CHAIRMAN. By what State is your company chartered?

Mr. HOYT. Delaware. Pickands, Mather, sir, is a partnership, but Mather Iron Co., through which we hold our investments and operate these properties, is a Delaware corporation.

The CHAIRMAN. All of the stock of that is owned by the partnership?

Mr. HOYT. All of the common stock, sir.

The CHAIRMAN. All of the common stock. The preferred stock?

Mr. Hoyt. The preferred stock is held principally by the families of our partners who have died in the past few years.

The Chairman. What is your ownership in the Interlake Steamship Co.?

Mr. Hoyt. I think we own 8,200 shares out of about 469,000.

Mr. Feller. But you manage the Interlake Steamship Co. and you officer the fleet?

Mr. Hoyt. Correct.

The Chairman. You manage it by means of a contract?

Mr. Hoyt. Yes, sir.

The Chairman. Over a period of years?

Mr. Hoyt. Yes, sir.

The Chairman. What period?

Mr. Hoyt. I think it has about 12 years to run. I can't be sure of that date.

The Chairman. Is it renewable?

Mr. Hoyt. No; I think, except by mutual agreement. It would be a new contract.

The Chairman. You have no preferred right to renewal?

Mr. Hoyt. No; but the board of directors technically have employed Pickands, Mather & Co. to operate the Interlake Steamship Co.

The Chairman. Now then, your ownership of the Dalton Ore Co.

Mr. Hoyt. Thirty percent.

The Chairman. Do you have a contract with that company?

Mr. Hoyt. Yes, sir.

The Chairman. Over what period?

Mr. Hoyt. That runs for the life of the mines in which the Dalton Ore Co. is interested.

Mr. Feller. Thirty percent of the total stock of Dalton Ore is owned by you, but 60 percent of the voting stock.

Mr. Hoyt. As I have explained before.

The Chairman. You have complete control, then, of that company?

Mr. Hoyt. Purely as to operations, sir, as I have explained before.

The Chairman. As you have explained before, it was necessary for you to have full authority to manage the properties of this company.

Mr. Hoyt. That's right, because they were minority interests in mines in which we had a great many other associates.

The Chairman. By what State is that corporation chartered?

Mr. Hoyt. I can't tell you, sir.

The Chairman. How many corporations are represented in this corporation by minority interests?

Mr. Hoyt. You mean how many mining companies?

The Chairman. As I understand your testimony, this is an organization which was formed to group together certain minority interests in certain other mining properties.

Mr. Hoyt. Yes. Well, I can't tell you offhand, but I would say 10 or 12 mining companies.

The Chairman. Who are the major interests in those companies?

Mr. Hoyt. Well, they are very much diversified, sir, and according to that list that Mr. Feller read, for example, if I can give you an illustration, in one mine we would have Bethlehem, Youngstown, the Steel Co. of Canada, Republic, and Dalton Ore as stockholders. And

it is varied. In other mines there is just Youngstown and ourselves, or Bethlehem and ourselves, or I say Dalton Ore rather than ourselves.

The CHAIRMAN. Do those companies which constitute the majority interests in certain properties also owned by the minority interests which are organized in the Dalton Ore Co. exercise any control over the properties held by the minority interests which constitute the Dalton Ore?

Mr. HOYT. No, sir; you mean, have they any interests relating through to the steel company or pig-iron company back of it, is that it? No, sir.

The CHAIRMAN. Well, do I understand that the minority companies, these minority interests organized into the Dalton Co., can in effect manage the properties in which they have a minority interest?

Mr. HOYT. No, sir; Dalton Ore Co. is only related to Pickands, Mather because we own 30 percent of the stock, and as such we have a contract as a firm to operate the mine in which Dalton Ore Co. has an interest.

The CHAIRMAN. That is just the particular property that that company has an interest in?

Mr. HOYT. That would be true of all of them. I think there are no mining companies in which Dalton is interested where there is a majority owner. In other words——

The CHAIRMAN (interposing). Oh, then, though they may be the minority interests, they are so large a minority interest that in effect they control the property?

Mr. HOYT. No, sir; very far from that.

The CHAIRMAN. Well, I don't quite get the picture. Let us take, for example, mine A——

Mr. HOYT (interposing). Yes, sir.

The CHAIRMAN. In which the minority is owned by X, Y, and Z. Now X, Y, and Z have participated in the organization of the Dalton Ore Co.

Mr. HOYT. Now wait just a second, sir, if you will.

The CHAIRMAN. There seems to be a complicated arrangement here which isn't quite clear.

Mr. HOYT. It really isn't complicated.

The CHAIRMAN. I knew you could make it clear.

Mr. HOYT. If I can take one mining company, I have already mentioned the Bennett earlier. There are four stockholders in the Bennett mine. It was one of those properties that we, as a firm, asked this group to come into back in 1917.

Now, Dalton Ore Co. has a two-ninths interest, Youngstown Sheet & Tube a three-ninths interest.

Senator KING. In the mine themselves?

Mr. HOYT. In the Bennett Mining Co.

Pittsburgh Steel Co. has a two-ninths interest, and Bethlehem Steel Corporation a two-ninths interest.

Now, that mining company hires Pickands, Mather to operate its mines subject to the direction of the board of directors of the Bennett Mining Co.

The CHAIRMAN. In other words, the Bennett Mining Co. is the owner of this particular property?

Mr. HOYT. That is correct.

The CHAIRMAN. Dalton owns only two-ninths of the Bennett Co.?

Mr. HOYT. That is correct.

The CHAIRMAN. But it nevertheless is the manager of the company?

Mr. HOYT. No, no, sir; not the Dalton. Don't confuse Dalton Ore with Pickands, Mather.

The CHAIRMAN. Then Pickands, Mather is the operating agent for that?

Mr. HOYT. That is correct.

The CHAIRMAN. And the Bethlehem Steel, Youngstown, and the others have participated in that agreement by which Pickands, Mather has become the manager?

Mr. HOYT. And the board of directors decides on the policy of the Bennett Mining Co. as to improvements, developments, extensions, production, and so forth, and instructs us what to do.

Senator KING. The partnership has a contract with the Bennett Mining Co. as I understand it.

The CHAIRMAN. So that your arrangement whereby you have the voting power to control the Dalton Ore Co. does not extend to the control of the Bennett Co.?

Mr. HOYT. It only extends to the fact that as far as any developments, expenditures, and so forth, in the Bennett mine; we vote for the Dalton Ore Co. for the two-ninths.

The CHAIRMAN. And if the others, Bethlehem, Youngstown Sheet & Tube and the others were to vote for a different sort of control, then they would dominate?

Mr. HOYT. Yes, sir; surely.

Senator KING. If I understand, the Mather partnership company, separate from the Dalton Ore Co., and the Dalton Ore Co., together with Bethlehem and others, have an interest in this Bennett Corporation. In dealing with it, then, you deal with it first in the contract; in operating you deal with it as a partnership, but in the directorate there might be one of your partners who would be a director, but at any rate the contract is between the Bennett Co. and the Dalton Ore Co.?

Mr. HOYT. That is right.

Mr. FELLER. Mr. Hoyt, in your contracts with these mining companies such as the Bennett Mining Co., a provision is contained which makes Pickands, Mather exclusive salesman for any ore produced for the stockholders of the mine?

Mr. HOYT. Yes, sir.

(The witness, Mr. Hoyt, was excused temporarily.)

The CHAIRMAN. The chair wishes to announce that Mr. John V. W. Reynders, consulting engineer of New York, is sitting with the committee by appointment of Secretary Hopkins of the Department of Commerce, as an alternate for Mr. Avildsen during this hearing upon steel. Mr. Reynders was at one time engaged in bridge building and in steel manufacturing, from 1886 to 1916. Since that time I understand he has conducted his own consulting engineering office and is engaged primarily in steel making, mining, and bridge building. This is in harmony with the policy which the Department of Commerce has been following in designating as an alternate some businessman to work and consult with the Department of Commerce. It was first undertaken in the petroleum hearing, when Mr. McConnell was designated as alternate.

The Chair wishes to file for the record a letter from Mr. A. A. Stambaugh, vice president of the Standard Oil Co. of Ohio, transmitting an affidavit which that company desired to put in the hearing in connection with petroleum.

(The communication referred to was marked "Exhibit No. 1354," and is printed in Hearings, Part 17, appendix, p. 9929.)

The CHAIRMAN. The committee will hold an executive session at 2:15 this afternoon, but at 2:30 will resume the hearing on the steel industry.

Mr. FELLER. We should like to announce that the next witness will be Mr. E. B. Greene, president of the Cleveland-Cliffs Iron Co.

The CHAIRMAN. The committee will now stand in recess until 2:15.

(Whereupon at 12:30 o'clock the committee recessed until 2:15 for an executive session with the hearing to resume at 2:30.)

AFTERNOON SESSION

The session was resumed at 2:35 p. m., at the expiration of the recess.

The CHAIRMAN. The committee will please come to order.

Are you ready to proceed, Mr. Feller?

Mr. FELLER. Yes, sir.

The CHAIRMAN. Do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. GREENE. I do.

The CHAIRMAN. Please be seated.

TESTIMONY OF EDWARD B. GREENE, PRESIDENT, CLEVELAND-CLIFFS IRON CO., CLEVELAND, OHIO

Mr. FELLER. Will you give the reporter your full name?

Mr. GREENE. Edward B. Greene.

Mr. FELLER. What is the company you are connected with?

Mr. GREENE. Cleveland-Cliffs Iron Co.

Mr. FELLER. What is your position in the Cleveland-Cliffs Iron Co.?

Mr. GREENE. I am president.

Mr. FELLER. You are also president of the Cliffs Corporation?

Mr. GREENE. Yes, sir.

Senator KING. What was that last name?

Mr. FELLER. Cliffs. C-l-i-f-f-s.

And you were formerly a director of the Republic Steel Co., were you not?

Mr. GREENE. I was.

Mr. FELLER. When was the Cleveland-Cliffs Iron Co. founded?

Mr. GREENE. The Cleveland-Cliffs Iron Co. was founded in 1890 but it was then a holding company, holding all the stock of the Cleveland Iron Mining, and say two-thirds of the Iron Cliffs Mining. Legally it became one company, the Cleveland-Cliffs Iron Co., in 1914.

Mr. FELLER. Is it correct to say that the Cleveland-Cliffs Iron Co. is historically the family property of the Mather and Wade family of Cleveland?

Mr. GREENE. Well, that would be, I think, a slight exaggeration. Those two families have held a large interest in that company for several generations.

Mr. FELLER. Will you tell us the name of the founder of the original company?

Mr. GREENE. The founder of the two companies, incorporators of the Cleveland Iron Mining Co. were Samuel L. Mather, John Outhwaite, Morgan L. Hewitt, Selah Chamberlain, Isaac L. Hewitt, Henry F. Brayton, E. M. Clark. The large stockholders of the Iron Cliffs Co. were Samuel J. Tilden of New York, William B. Ogden, and William H. Barnum, of Connecticut.

Mr. FELLER. Mr. Samuel L. Mather, the name you read first, was the father, was he not, of Samuel Mather, one of the founders?

Mr. GREENE. Samuel Mather and Mr. William G. Mather, chairman of the board of the Cleveland-Cliffs Iron Co.

Mr. FELLER. Is it correct to say the total assets of the Cleveland-Cliffs Iron Co. is about $65,000,000?

Mr. GREENE. Approximately about $69,000,000.

Mr. FELLER. Now, Mr. Hoyt testified this morning with respect to the functions of Pickands, Mather & Co., and he told us that Pickands, Mather & Co. was primarily engaged in the management operation of ore properties which were owned by others and part-owned by various connections of Pickands, Mather. Now, your company is different, is it not? Your company mainly owns or leases in fee ore properties.

Mr. GREENE. We have, I believe, three mines only in which we have a partial ownership. In two of them we own the majority and in one it is about a quarter. All of our other properties are owned entirely by Cleveland-Cliffs Iron Co.

Mr. FELLER. Is it correct to say that the Cleveland-Cliffs Iron Co. is the largest owner-seller of ore in the Lake Superior district?

Mr. GREENE. Do you mean seller of its own ore?

Mr. FELLER. Seller of ore which it operates in property that it owns or leases in fee?

Mr. GREENE. That is a little hard to answer. We sell more of our own ore than any other company. We do not handle as much ore as Pickands, Mather.

Mr. FELLER. That appears on this bar chart which we produced this morning[1] which shows that your company in 1937 shipped 9.1 percent of the total shipments. Cleveland-Cliffs Co. also owns a fleet of vessels, does it not?

Mr. GREENE. It does.

Mr. FELLER. Could you tell us what ranking that fleet of vessels has in the total lake transportation?

Mr. GREENE. It is fourth in capacity.

Senator KING. In what?

Mr. GREENE. Capacity.

Senator KING. You don't carry passengers, just ore?

Mr. GREENE. We handle ore, coal occasionally, stone, and grain. They are all bulk freighters. We have one self-unloader in which we have a half interest.

Mr. FELLER. Which of the companies is larger than the Cleveland-Cliffs in the transportation of ore on the Great Lakes?

Mr. GREENE. Pittsburgh Steamship Co.

Mr. FELLER. Subsidiary of United States Steel?

Mr. GREENE. Sure; the Interlake, Pickands, Mather Co.'s fleet and the Hutchinson fleet. The latter is a combination of two fleets. Our fleet is a combination of 4 companies of which the Cleveland-Cliffs owns

[1] "Exhibit No. 1351", appendix, p. 10425.

15 and there are 7 boats in 3 other companies which we manage which is called the Cleveland-Cliffs fleet, 22 bulk freighters and 1 is a self-unloader.

Mr. FELLER. The Cleveland-Cliffs Iron Co. also owns a large interest in the Lake Superior & Ishpeming Railroad Co.

Mr. GREENE. It does.

Mr. FELLER. Seventy-five percent?

Mr. GREENE. Yes.

Mr. FELLER. And that railroad carries ore produced by the mines on the Marquette Range, in Michigan, is that right?

Mr. GREENE. That is right.

Mr. FELLER. Mr. Greene, turning to the chart entitled "Financial Connection Between Major Iron Ore Companies and steel Companies", [1] I call your attention first to the indication on the chart on the upper left hand corner that the Cleveland-Cliffs Iron Co. in conjunction with the Cliffs Corporation, owns 66.7 percent of the voting stock of that company.

Mr. GREENE. It owns two-thirds of the so-called preferred stock. I do not recall just whether the other stock votes or not, but I think your statement is correct.

Mr. FELLER. Mr. Chairman, at this point we are going to consider also Oglebay, Norton & Co., and I should like to call Mr. Crispin Oglebay at the same time as Mr. Green.

TESTIMONY OF CRISPIN OGLEBAY, PRESIDENT, OGLEBAY, NORTON & CO., CLEVELAND, OHIO

The CHAIRMAN. Do you solemnly swear the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. OGLEBAY. I do.

The CHAIRMAN. Will you be seated, Mr. Oglebay, please.

Mr. FELLER. Mr. Oglebay, will you give your name to the reporter, please?

Mr. OGLEBAY. Crispin Oglebay.

Mr. FELLER. And your position in Oglebay, Norton & Co.?

Mr. OGLEBAY. President.

ACQUISITION OF STOCK IN OGLEBAY, NORTON CO. BY CLEVELAND-CLIFFS IRON CO.

Mr. FELLER. Mr. Greene, when was this stock interest in Oglebay, Norton & Co. acquired by the Cleveland-Cliffs Iron Co.?

Mr. GREENE. I believe it was May 1930.

Mr. FELLER. Mr. Oglebay, in 1930 was Oglebay, Norton engaged in the mining and selling of iron ore?

Mr. OGLEBAY. It was.

Mr. FELLER. At that time would you be able to tell us roughly what percentage of its shipments was accounted for by Oglebay, Norton shipments?

Mr. OGLEBAY. I don't know.

Mr. FELLER. Well, in accordance with figures submitted by your company it would appear that in 1929 Oglebay, Norton & Co. shipped

[1] "Exhibit No. 1353," appendix, p. 10427.

4.2 percent of the total industry shipment and in 1930, 3.9 percent of the total industry shipments. Mr. Greene, your company also at that time was engaged in mining and sale of iron ore?

Mr. Greene. It was.

Mr. Feller. Oglebay, Norton was a substantial competitor?

Mr. Greene. Yes.

Mr. Feller. I should like to ask you, Mr. Greene, whether you could tell us why the Cleveland-Cliffs Iron Co. acquired this stock interest in Oglebay, Norton & Co.

Mr. Greene. I believe from the records of that time that the interest in Oglebay, Norton was acquired for two reasons; in the first place at that time, there were being created many larger units in the steel business, being brought about by mergers, and it was thought that by associating ourselves with Oglebay, Norton we might have the opportunity of selling ore to the companies that Oglebay, Norton were close to, only to the extent beyond Oglebay, Norton's ability to supply their requirements, and possibly kinds of ore which Oglebay, Norton did not have. We also thought that from the standpoint of mining properties the association of Cleveland-Cliffs Iron Co. with two or three splendid properties on the Gogebic range was advantageous. I believe those were the two reasons that actuated the Cleveland-Cliffs Iron Co. in acquiring that interest in the stock of Oglebay, Norton.

Mr. Feller. Mr. Greene, I show you a letter which was taken from your files which appears to have been written by Mr. William G. Mather, dated May 29, 1930, and addressed to Mr. S. R. Elliot, manager.[1] What was Mr. Mather's position at that time with the company?

Mr. Greene. He was then president of the Cleveland-Cliffs Iron Co.

Mr. Feller. And Mr. Elliot?

Mr. Greene. Manager of the mining department with headquarters at Ishpeming.

Mr. Feller. I should like to call your attention—the letter, I might say, for the record, is certified to be a true copy by the secretary of the Cleveland-Cliffs Co. I call your attention in particular to the third paragraph which reads as follows [reading from "Exhibit No. 1356"]:

> The Oglebay, Norton people will continue to run their business as heretofore. The advantages that will accrue to us—

and by us I presume is meant Cleveland-Cliffs Iron Co.—

> are that we share in their net profits to an appreciable extent and that we are placed in a position of greatly minimizing if not entirely preventing tendencies which have prevented iron ore producers from getting a reasonable price for their product.

Now skipping to the next paragraph I read further from the same exhibit:

> I think it is an excellent move and will have a stabilizing effect on the conduct of the iron ore industry, but you can see that it is a relationship which we do not want to talk about as such publicity might result in opposition on the part of the public or the consumers to a move which they may construe as tending toward an undue control of prices.

[1] Introduced infra as "Exhibit No. 1356"; included in the appendix on p. 10430.

Have you any reason to suppose that Mr. Mather's statement was not a correct statement of the reasons for the acquisition?

Mr. GREENE. Well, I am not able to testify as to what was in Mr. Mather's mind. I, myself, can't understand those statements.

Mr. FELLER. I would like to ask you, Mr. Oglebay, what was the reason for the sale of the interests of Oglebay, Norton to the Cleveland-Cliffs Iron Co.? Were you at that time connected with Oglebay, Norton?

Mr. OGLEBAY. I was the president. We were as Oglebay, Norton Co. at that time the managers of five mines and one steamship company. It was in the air at that time this possibility of another large consolidation headed by Cleveland interests, and it was in our mind in our office that this might absorb interests that were independent in the ore business and that it would be wise for us to cooperate with this movement, not thinking at all of the welfare of Oglebay, Norton & Co. Oglebay, Norton & Co. is a mine-managing corporation; it owns nothing. It is a personal-service corporation and employed by these companies to manage their properties. We felt that if there was to be a consolidation, Cleveland-Cliffs would play a very prominent part in this consolidation and if we could be seated around the table with them, representing these various properties, it would be to their welfare, and with that in mind, why, we negotiated a sale of this personal service corporation, that is Oglebay, Norton Co., two-thirds of its interests, to the Cleveland-Cliffs Iron Co.

Mr. FELLER. As I understand, you sold this interest to Cleveland-Cliffs Iron Co. because of your fear of what might happen to your business in the event of a large-scale consolidation of steel companies?

Mr. OGLEBAY. I don't think you are quite right in saying "fear." I think we just felt that probably our bread would be buttered maybe a little better if we were sitting around the table with a group of fellows, if there were to be a consolidation, who would effect this consolidation. Our hands were perfectly free as far as the individual corporations that we manage. They are separately owned from Oglebay, Norton Co., separate boards of directors, and each one of them would have the privilege of reporting themselves to some new consolidation or they would not. It just seemed to us in representing those corporations that we had more to gain by sitting around the table than being on the outside.

Mr. FELLER. I show you, Mr. Oglebay, a letter which appears to have been sent by you to Mr. Greene. The letter is dated February 17, 1930. The letter was taken from the files of Oglebay, Norton Co., your company. I call your attention specifically to the second full paragraph on page 2 of this letter, a very lengthy letter. Now that paragraph reads in part as follows:

> Our association with Cleveland-Cliffs will presumably strengthen our market position with respect to the manganiferous grades known as Ontario and Quebec, because it will give us a favorable standing with the steel companies associated with Cleveland-Cliffs' operations.

That in part was your reason, was it not?

Mr. OGLEBAY. Yes.

Mr. FELLER. I offer, Mr. Chairman, this exhibit and the exhibit previously shown to Mr. Greene.

The CHAIRMAN. You want them in their entirety?

Mr. FELLER. I should like to have them in their entirety.

(The letters referred to were marked "Exhibits Nos. 1356 and 1355," respectively, and are included in the appendix on pp. 10430 and 10428.)

Senator KING. Would you have assets other than your Cleveland organization?

Mr. OGLEBAY. We have no assets, other than just like assets approximating $200,000 to finance our operations. We own nothing; we are a personal service corporation and are responsible just like an individual would be who might be appointed general manager of these corporations.

The CHAIRMAN. But you had complete control?

Mr. OGLEBAY. Oh, no. Every one of them has a separate board and each company has separate offices and we are——

The CHAIRMAN (interposing). A service corporation with your functions, and what was the extent of your authority in the management of these properties?

Mr. OGLEBAY. I would say about the same as the general manager reporting to the board and the president.

The CHAIRMAN. Well, what was the term over which you exercised this authority? Was it subject to cancelation day by day?

Mr. OGLEBAY. Year by year.

The CHAIRMAN. You had no contracts beyond the year?

Mr. OGLEBAY. No; year by year contracts.

Mr. FELLER. Your chief assets, then, were these contracts, were they not? These contracts to manage mine properties?

Mr. OGLEBAY. Yes.

Mr. HENDERSON. Had they been renewed over a period of years each year?

Mr. OGLEBAY. For a long time; yes. Now we only have two properties; three of these properties during the period of depression we lost; that is, they decided to abandon them because they didn't have enough merit to face these difficult times in the last 7 or 8 years, so that today we only manage two iron-ore properties, and one of those properties you might call a captive mine, in that I mean two-thirds of it is owned by the Wheeling Steel Corporation and the American Rolling Mill Co.

The CHAIRMAN. Well, is it within your jurisdiction, or has it been within your jurisdiction, as the manager of these properties, to determine how much ore should be sold? How much should be mined?

Mr. OGLEBAY. No; to the contrary we endeavor not to place ourselves in that position.

The CHAIRMAN. Well, who told you——

Mr. OGLEBAY. The board of directors. Our board meets three or four times a year, each time any problems come up why we call the board together.

The CHAIRMAN. You mean the board of directors of your company?

Mr. OGLEBAY. No; the board of directors of these separate corporations that we manage. We are in a sense no different than you if you were placed as general manager, instead of an individual being general manager why Oglebay, Norton Co. is general manager, reporting to the board of directors of each one of these separate corporations.

The CHAIRMAN. And carrying out the orders of the separate corporations as to the amount of ore to be shipped and sold and produced?

Mr. OGLEBAY. Yes, sir.

The CHAIRMAN. What, in your mind, did you stand to lose and what did you stand to gain when this proposed merger was discussed and the sale of this stock was proposed?

Mr. OGLEBAY. Well, these corporations, of course each one of them is quite valuable and we as the managers of these corporations had the feeling that if we, the personal service corporation, could get in and have a close picture with these very large corporations we would have two advantages, we would have the added advantage in being able to sell them ore from these companies, and if there be a large consolidation, we might be in a little friendlier contact with them in case it was to our advantage to sell these companies.

The CHAIRMAN. Well, if you were merely carrying out——

Mr. OGLEBAY (interposing). I don't mean our advantage, I mean the advantage of the corporations we represent.

The CHAIRMAN. Well, if you were merely carrying out orders of these various boards of directors and exercised no original authority upon your own part, what advantage was it to the Cliffs Co. to acquire two-thirds of your control, since you had no control?

Mr. OGLEBAY. Well, I can't answer for Cleveland-Cliffs. I am speaking for the way we thought.

The CHAIRMAN. Hadn't you any idea what it meant to them to get control of your company, this purely personal service company?

Mr. OGLEBAY. Well, I really don't know exactly what was in their mind.

Mr. FELLER. Mr. Oglebay, in that connection, I should like to show you what appears to be a telegram sent by you to W. W. White January 26, 1930; the copy which we have is certified to be a true copy by the secretary of the Cleveland-Cliffs Iron Co., and it was secured from their files.[1] If I may read the first few sentences. [Reading:]

> I have talked with Wade and Greene and they approve of general plan and ask the following telegrams be sent as representing their thoughts. I think their recommendations for specific considerations are entirely proper and have advised them in my opinion they should be so recognized. STOP As individuals we are heartily in favor of Cleveland-Cliffs Company acquiring Oglebay, Norton Company under the proposed plan, believing that this merger tends to stabilize the market value of ore.

Mr. Oglebay, could you tell us what you had in your mind then when you used those words?

Mr. OGLEBAY. No; I can't. I think, in general thinking, I had in my mind the general values of ore properties and the entire problems associated with independent mines. One of the great big responsibilities that this office has.

Senator KING. Which office, yours?

Mr. OGLEBAY. Ours, Oglebay, Norton Co., has the management of one of the large independent iron ore mines and that is the Montreal Mining Co. Mr. Wade, who is mentioned in this telegram, is the president of the Montreal Mining Co., and Mr. Greene married Mr. Wade's sister and was on the board, and is now, and as I stated in the beginning in my conversation here, one of our keen responsibilities

[1] Introduced infra, p. 10250, as "Exhibit No. 1358," appendix, p. 10432.

is the welfare of the Montreal Mining Co., and we felt that due to this possible consolidation of these corporations that in thinking of the welfare of the Montreal Mining Co. it would be well for us as this management service corporation to be on the inside of the picture.

Mr. HENDERSON. You felt that a stabilized price, if it could be arranged by this new contract, would redound to the benefit of the Montreal Mining Co.?

Mr. OGLEBAY. Yes.

Mr. HENDERSON. May I ask this question? You spoke of your relationship being exactly like a general manager on these properties. However, if you were general manager you would not be able to sell two-thirds of your contract with the company to a rival organization, would you?

Mr. OGLEBAY. Oh, no, no.

Mr. HENDERSON. Then in that sense there is quite a difference, isn't there?

Mr. OGLEBAY. There is in that sense; yes. But I mean we ourselves were, through the service corporation, putting our personnel in closer touch with this bigger picture and in that way, in being in closer touch with the possibly bigger picture, we were possibly aiding in helping these various corporations whose responsibility we had for their management. We looked upon that responsibility in the sense that if there was to be consolidation probably we would play a very important part in the negotiations in trying to get as high a value as we could and just like a general manager or president of the corporation would.

Senator KING. You mean a higher value for the properties which you were managing?

Mr. OGLEBAY. Yes.

Senator KING. May I ask a question here?

Mr. FELLER. Yes.

Senator KING. Who fixed the prices at which the ore from these respective companies, the management of which in part was in your hands—who fixed the price that would be paid for the ore?

Mr. OGLEBAY. The board of directors.

Senator KING. Well, did all of those companies under whose management you had charge of the mines fix the same price or did each company fix the price of its own ore?

Mr. OGLEBAY. Each company fixed the price of its own ore.

Senator KING. I presume there was a variance in the metallic content of the ores in the various properties?

Mr. OGLEBAY. Oh, yes.

Senator KING. And the ores of one mining company being dissimilar, I assume, from the ores of others, would not command the same price?

Mr. OGLEBAY. That is true.

Senator KING. Did you attempt to fix the price monopolistically or was there a system of competition in force among those whose companies you represented?

Mr. OGLEBAY. Well, I can answer that probably better in detail. One of these companies, two-thirds of it is owned by the American Rolling Mill Co. and Wheeling Steel Corporation and we sit around every year and decide with those what is a fair value and agree on a price and ship the ore to them, because they own two-thirds of the

ore anyhow, so they are not so keenly interested in what the value of the ore is.

Senator KING. Well, did the ores of all of the companies which you represent go to the same vendee, the same purchaser?

Mr. OGLEBAY. Oh, dear; no.

Senator KING. Went to different companies?

Mr. OGLEBAY. Different corporations.

Senator KING. And was there competition among those different corporations in bidding for the ores which you represented?

Mr. OGLEBAY. Well, the ores were all sold in different years. As an example, I mean the Montreal Mining Co. Nearly all their contracts have been made in different years and carry over anywhere from 5 to 10 years, and nearly all those contracts were negotiated and sold against labor values and material costs. We arrive with the president of the steel corporation at about a fair value and then we fix that profit factor and then that profit factor changes with the different cost in labor and the different cost in raw material over a period of years.

Senator KING. What I am trying to get at is this, that the orders being different in value because they had different metallic contents, there was no plan by which you were to standardize them and fix the same price and pay as much for the poor ores as for the good ores?

Mr. OGLEBAY. Oh, yes; nearly all these ores are standardized at approximately 51 percent iron, and if an iron ore goes 60 percent, as an example, then you are paid for nine points more of iron, and if it goes lower than 51, why you are paid less for your iron ore.

Senator KING. Then the metallic content determined the amount which would be paid for the ore?

Mr. OGLEBAY. Surely.

Mr. FELLER. Mr. Chairman, further on in this hearing we shall present rather extended testimony on the question of price along the lines Senator King has been asking about.

Senator KING. I thought it was material to ascertain just who fixed the prices of the ores of these various corporations that his company represented as merely service representatives; I was wondering just what disposition was made of the ore.

Mr. FELLER. Mr. Greene, reverting to the letter of May 29, 1930, sent by Mr. William G. Mather to S. R. Elliott,[1] you will recall that that letter contained these words:

> The advantages that will accrue to us are that * * * * we are placed in a position of greatly minimizing, if not entirely preventing, tendencies which have prevented iron ore producers from getting a reasonable price for their product.

I realize that this letter was written by someone else, but you were at that time the director of the corporation, were you not?

Mr. GREENE. I was.

Mr. FELLER. Would you be able to explain what that means?

Mr. GREENE. I haven't any knowledge of what was in Mr. Mather's mind. The only reason that I feel that Mr. Mather was right, and I think that is not what he expressed in the letter, was with the bigger units and possibly the ability to deal with the buyers on a bigger scale, you could hope to get a better price for iron ore. That is the only thing that I can see about it; as far as price goes, I presume it was the

[1] "Exhibit No 1356", appendix, p. 10430.

customers of the two companies that were the ones he rather hoped would not be discussed. I think the advantage comes in simply dealing in smaller numbers.

Mr. FELLER. Do you see any reason why in the next paragraph Mr. Mather should have cautioned against giving any publicity to this relationship?

Mr. GREENE. Yes; that is just what I alluded to. I think it was a matter of the ore companies having strong friendships with their customers, and probably it would be better for both Oglebay, Norton and Cleveland-Cliffs that the relationship should be not discussed too generally.

Mr. FELLER. Well, if, as you have said, the way in which this prevention of unreasonable tendencies in the price of iron ore would operate would be by virtue of the fact that you would have a larger organization, wouldn't it follow that people would have to know that it is a larger organization in order for you to be able to get the advantages of size?

Mr. GREENE. That is true. Of course this was a period when there were a great many mergers taking place in the steel business, and there was one at that time contemplated which if brought about would have created a big unit and the steel companies that made up that merger would have had a big purchasing power. Now Oglebay, Norton, and Cleveland-Cliffs both wanted to participate in that business to the full extent that they could, and I think that was in the minds of Cleveland-Cliffs, and I think Mr. Oglebay has just testified that that was in their minds too.

Mr. FELLER. Would you also say that this acquisition was connected with the attempts to merge the steel companies at that time?

Mr. GREENE. I wouldn't say connected; I would say that the proposed merger was a strong motive which helped to bring about a feeling on the part of the ore companies that maybe a close association would be helpful to the ore men.

Mr. FELLER. I should like to show you, Mr. Greene, a letter written by Mr. William G. Mather to Mr. Crispin Oglebay on the letterhead of the Cleveland-Cliffs Iron Co. This letter reads in part:

> There are, to be sure, advantages which will accrue to the owners of the fees and to those interests which are more or less associated with us, who have in mind the desirability of enlarging the mergers of steel companies which are now in progress.

I offer this for the record.

The CHAIRMAN. It may be received.

(The letter referred to was marked "Exhibit No. 1357" and is included in the appendix on p. 10431.)

Mr. FELLER. Was that in effect a restatement of what you have just been saying?

Mr. GREENE. Exactly it.

Mr. FELLER. Then does it not appear that Mr. William G. Mather had in mind two main thoughts when this transaction was in the process of being accomplished; one, in his own terms, "preventing tendencies which have prevented iron-ore producers from getting a reasonable price for their product," or as it says in another place, "stabilizing the conduct of the iron-ore industry." That would be reason number one; and reason number two would be as an aid in

bringing about mergers of the steel companies. Is that a fair summary of these two letters of Mr. Mather?

Mr. GREENE. Well, I think that is somewhat the same statement I made a moment ago. I think it was brought about to strengthen the ore people possibly, as opposed to the steel people, or rather as the steel people grew in size why maybe the ore companies if they grew in size would be better able to hold their own.

The CHAIRMAN. Are you the Mr. Greene referred to in this letter of Mr. Mather?

Mr. GREENE. I think I am.

The CHAIRMAN. Mr. E. B. Greene?

Mr. GREENE. Yes.

The CHAIRMAN. Director of the Cleveland-Cliffs Iron Co.?

Mr. GREENE. That is right.

The CHAIRMAN. And how long had you occupied that position?

Mr. GREENE. The position of director, you mean?

The CHAIRMAN. Yes.

Mr. GREENE. I was elected to the Board of Cleveland Cliffs Iron Co. in 1926.

The CHAIRMAN. So at the time this letter was written you had been a member of the board of directors for about 4 years?

Mr. GREENE. About 3 years.

The CHAIRMAN. And you were also designated here as a representative of the Wade estate?

Mr. GREENE. That is correct.

The CHAIRMAN. How long had you occupied that position?

Mr. GREENE. I was an executor of the Wade estate.

The CHAIRMAN. How long had you occupied that position?

Mr. GREENE. About 3 years.

The CHAIRMAN. How long were you familiar with the properties of the Wade estate?

Mr. GREENE. I had no connection——

The CHAIRMAN. I said, how long were you familiar with them?

Mr. GREENE. Oh, familiar, for nearly 20 years.

The CHAIRMAN. You were thoroughly familiar with all of the properties and the events which go into this whole transaction?

Mr. GREENE. All the major events; yes.

The CHAIRMAN. I wonder if you could tell the committee what you think were the tendencies to which Mr. Mather referred which had prevented iron-ore producers from getting a reasonable price for their product, tendencies which it was sought to minimize if not actually prevent by the acquisition of two-thirds of the control of the Oglebay company?

Mr. GREENE. Well, it is rather a difficult matter to interpret another man's letter, but I would feel that Mr. Mather just referred to the fact that the steel units were getting larger and larger, following the Great War, when freight rates were doubled; it was an advantage to be in all markets or as many markets as you could be; there were increased overhead expenses, and they called for the investment of a large amount of capital. Now for all these reasons the steel companies faced one of two alternatives. They either had to go to work and each one of them integrate and add on all the products they didn't have and attempt to reach all the markets; that would have required

an immense amount of capital and would have greatly oversupplied this country with steel. The other and more obvious course was for the steel companies to so merge as to supplement each other and in that way avoid the overextension in capacity. I could take just one case of that kind which I think will illustrate that point.

I think in 1927 the Trumbull Steel went into the Old Republic, located at Youngstown, only a few miles apart. The Trumbull Steel had more mill capacity; they had outgrown the furnace and open hearths. Just a few miles away was the Republic with more blast furnaces and open hearths than they needed for their finishing mills, and they had an oversupply of raw product or semifinish. Now they could each one of them build and spend millions of money and add the thing they didn't have, or by the simple operation of getting together the oversupply of raw material went to Trumbull—the combined company, of course—and Trumbull supplied the additional finish. Now that was what was going on in between the period of 1921 or 1922, right up to 1930.

The CHAIRMAN. How was that affecting the prices that you were getting for your ore?

Mr. GREENE. I was coming to that. That was lessening the number of customers all the time; when you decrease the number of customers you are making outlet for your iron ore more difficult. Now we all saw that going on.

The CHAIRMAN. In other words, as the mergers of the steel companies tended to bring those companies under unified management and to prevent duplication of effort, competition among the various units began to disappear and the demand for ore was being steadily cut down?

Mr. GREENE. I don't think competition ever disappeared, Senator. I think it was simply the smaller the number the greater power they had in buying.

The CHAIRMAN. I didn't mean that in any hostile sense at all; I was trying to interpret what you just described to me. As I understood your description it was, here was company A which had certain facilities, and company B which had certain other facilities. Now company A, instead of spending a large amount of money to build for itself the facilities of company B, chose rather to purchase company B and effect a merger?

Mr. GREENE. That is right.

The CHAIRMAN. So that instead of having two units doing the work that B was doing, you had only one unit?

Mr. GREENE. Yes.

The CHAIRMAN. And when the merger was made effective therefore the possibility of competition between the extended plan of A with B was removed, was it not?

Mr. GREENE. That is exactly right, Senator.

The CHAIRMAN. So that the merger did cut down the field of competition and that in turn you say had what effect upon the price that you were paying for your—or you were receiving for your ore?

Mr. GREENE. It just had a tendency to make it more difficult to maintain your prices.

The CHAIRMAN. How was that actually reflected in prices?

Mr. GREENE. I would have to refer to the records there.

The CHAIRMAN. I mean can you testify there was a reduction in prices about this time?

Mr. GREENE. Oh, yes; there was, following the Great War there was a very material reduction in prices.

Mr. FELLER. Not in 1930?

Mr. GREENE. Not in 1930, because the war carried over, but after '30; I think it begins in '31.

The CHAIRMAN. Now how would this combination with Oglebay, Norton, the exact character of which isn't altogether clear to me since Mr. Oglebay has testified that it was merely a managing corporation that took all its orders from boards of directors; it apparently exercised no independent discretion of any kind. Perhaps Mr. Oglebay may want to correct me on that?

Mr. OGLEBAY. Oh, no.

How did the acquisition of this management corporation which was merely reflecting orders which it received from boards of directors, help you or Mr. Mather to stabilize the price of ore, since they had no jurisdiction over the price at which they sold it?

Mr. GREENE. Before I answer that, may I go on? I hadn't quite completed my statement on the other matter, why it made it more difficult maybe to sell ore, and that is this: These steel companies all had in varying amounts and varying kind their own ownership in ore. Now, some companies had a great deal and some had very little. When you put them together you see what I mean. Every merger tended to better supply, maybe, those steel companies and they were less in the market because maybe the oversupply of "A" would take care of "B," where before that he would buy from the merchant sellers of iron ore. So in addition to the matter you just gave us a summary of, in addition to that, you had this idea of the increased steel company being 9 times out of 10 better supplied with ore of different kinds than the separate units, so there was another reason that made it more difficult.

Mr. HENDERSON. Was there another reason, Mr. Greene? Was there anything like a customary relationship between ore companies and steel companies, and if there were a merger, a dominant interest would divert the ore contract to the one with which it was dealing and it might conceivably divert it away from your organization?

Mr. GREENE. That is very true.

Mr. FELLER. Now, Mr. Greene, it appears then that in the face of this, shall we say, threat presented by the merger of steel companies, it was the thought of your company to protect its position by increasing its own size through a merger with an ore company?

Mr. GREENE. That is right. When you say an ore company, you mean ore manager.

Mr. FELLER. Yes. Did you in fact coalesce Oglebay, Norton & Co. with Cleveland-Cliffs Co.? Did you effect a true merger?

Mr. GREENE. No; we did not.

Mr. FELLER. You kept Oglebay, Norton in the position of being an independent company?

Mr. GREENE. Absolutely. Of course, those mergers, beginning with about the summer of 1930, ceased to take place largely due to the increasing depression, and the two companies have acted exactly as if there had been no ownership of one in the other, and they have

competed, and I would say that as far as the practical results went, they have been nil.

Mr. Feller. Incidentally, it is true, is it not, Mr. Greene, that the contract in 1930 provided that Oglebay, Norton should be operated independently?

Mr. Greene. That is right.

Mr. Feller. Now, how would it help your company to acquire the controlling interest in Oglebay, Norton & Co., and yet to leave the management of Oglebay, Norton & Co. completely free and independent, and at the same time not to let the world know that your two companies were related in this fashion? In other words, would you get the advantage which you were seeking, the advantage of increasing your own size so as to cope with your customers who were also increasing their size?

Mr. Greene. It is hard to look back and see today what the conditions were then, but there was within the next 6 months what seemed to be the almost certainty of a creation of a big steel company, I mean a company in between the size of the United States and the next company. Now, that company with its combined resources would probably require a raw-materials company. In the minds, I think, of Mr. Oglebay and of Oglebay, Norton & Co. was the idea that this association might put them in a position to go in if they wanted or stay out if they wanted. I think I shouldn't be testifying for them, but I think that is what was in their minds.

I think in the minds of Cleveland-Cliffs was the thought that in that company the two of them would exercise more influence and become maybe a vital part of it if they worked together, and that is the atmosphere that you don't get today and you don't see, but if you went back to 1929 and 1930 I am sure you would realize that was a more potent factor than we see now.

The Chairman. Do they work together?

Mr. Greene. That steel company never was formed, and the cause, therefore, of the formation of Cliffs, I would say, maybe one of the, if not the most powerful reasons for this relationship was "out the window" within a very few months.

The Chairman. Was there any result at all from the conditions described in this letter of Mr. Mather?

Mr. Greene. I think there were none whatever.

The Chairman. At any time?

Mr. Greene. At any time.

Mr. Feller. Mr. Greene, you have testified correctly that under the contract of 1930 Oglebay, Norton was to be run independently of Cleveland-Cliffs. The contract also provides, does it not, that Cleveland-Cliffs may in its judgment consolidate one or more departments of the business of Oglebay, Norton with similar departments of Cleveland-Cliffs?

Mr. Greene. That, I believe, was a clause of the contract.

Mr. Feller. Now, Mr. Oglebay, you testified previously that one of the reasons why your company was willing to dispose of this controlling interest was because of its expectation or hope that it would receive a larger share of the business, is that correct?

Mr. Oglebay. I don't follow you.

Mr. Feller. The expectation or hope that through further connections, your company would be able to sell more iron ore.

Mr. OGLEBAY. No, I think our thought mostly was that we had a picture of this consolidation being effected, and if it was effected that we by associating ourselves with Cleveland-Cliffs would have a better influence in making better values for the corporations that we were managing than if we were totally independent and left by ourselves.

Mr. FELLER. Was your thought there that you would become a part of the new consolidation?

Mr. OGLEBAY. Oh, I don't think anybody had any thought exactly about what it would be. Some people felt if this consolidation were effected that Cleveland-Cliffs Iron Co. might be made into another Oliver Mining Co. and would be the company that would represent the iron ore interests of this larger consolidation. That was in the minds of some of us who were simply gossiping and trying to think what might happen.

In thinking what might happen, we were representing two or three large corporations and we just felt, "Well, now, here that might happen, we have got everything in the world to gain by sitting around the table here with a personal service corporation, and if it doesn't happen we have little or nothing to lose in relationship to the big amount that we represented."

This little corporation had very few quick assets and we were managing properties that you might think of as being worth $30,000,000 or so, and naturally we were thinking of the welfare of the $30,000,000 rather than the welfare of this personal service corporation.

Senator KING. May I ask a question there without disturbing the continuity of your procedure? As I understand it, your organization was merely a service organization. It didn't fix the prices of the ores which you sold to the various corporations that were producing steel.

Mr. OGLEBAY. That is right.

Senator KING. Were there any other service organizations than the one in which you were interested?

Mr. OGLEBAY. What do you mean; you mean within our office?

Senator KING. No; in this iron region.

Mr. OGLEBAY. I look upon Pickands, Mather Co. as a personal service corporation.

Senator KING. Who was it wanted the ore and who was it fixed the price for the ore which you and the Mather Co. sold?

Mr. OGLEBAY. As I say, a good part of our ore was captive ore; I mean owned, so that the owners fixed their prices on that ore, and then the larger mine we operate in the name of the Montreal Mining Co., that ore is all sold on 10-year contracts and it hasn't any relationship to any price of any one year. It is based against cost of labor and cost of raw materials, and, of course, when we could negotiate with a corporation, we would arrive at a price where we were in sympathy with each other as to a contract, and then we would go back with that contract to our board and call our board together and ask them whether they approved of it, and if they did approve of it, we would make the contract.

Senator KING. What I am trying to get at is what conduct on your part—when I say "your" I mean your service corporation—would affect the price of the finished product which was put out by the manufacturers of the steel commodities?

Mr. OGLEBAY. Oh, gee!

Senator KING. Did your conduct have anything to do with the price that I would have to pay for steel?

Mr. OGLEBAY. If it did, it is so small I can't imagine it having any effect.

Mr. FELLER. Mr. Oglebay, did it have anything to do with the price which would be paid by steel companies for iron ore?

Mr. OGLEBAY. Are you speaking now in relationship to the consolidation?

Mr. FELLER. Yes; your company. In accordance with the telegram which you sent to Mr. White—and by the way, may I offer it for the record?

The CHAIRMAN. It may be received.

(The telegram referred to was marked "Exhibit No. 1358" and is included in the appendix on p. 10432.)

The CHAIRMAN. Would you be good enough to read that telegram again?

Mr. FELLER (reading from "Exhibit No. 1358"):

I have talked with Wade and Greene and they approve of general plan and ask the following telegram be sent as representing their thoughts. I think their recommendation for specific considerations are entirely proper and have advised them in my opinion they would be so recognized (stop) As individuals we are heartily in favor of Cleveland-Cliffs company acquiring Oglebay, Norton & Company under the proposed plan believing that this merger tends to stabilize the market value of ore.

The CHAIRMAN. Does this telegram refer to Mr. Greene, the present witness?

Mr. GREENE. Yes.

The CHAIRMAN. Does the telegram express your opinion?

Mr. GREENE. I was in favor of the acquiring of two-thirds of the preferred stock of Oglebay, Norton.

The CHAIRMAN. What did you think you were acquiring when you were in favor of buying this two-thirds stock?

Mr. GREENE. We were acquiring a well-established and profitable service corporation. While their contracts may have been short-time, they had made a conspicuous success in managing several properties, one or two of them outstanding properties, and we considered that acquiring an interest in that company and the association with Oglebay, Norton and its mines and witn the men who ran that company was worth the money and stock we gave them for it.

The CHAIRMAN. In what manner was it worth it?

Mr. GREENE. It was the association.

The CHAIRMAN. What did you pay for it?

Mr. GREENE. We paid 10,000 shares of Cliffs stock, and——

Mr. OGLEBAY. Nothing more. There was no "and" to it.

The CHAIRMAN. Mr. Greene seems to be a little doubtful about that.

Mr. GREENE. I am sure he would remember.

The CHAIRMAN. Don't you remember what your company paid?

Mr. GREENE. Ten thousand shares of Cliffs stock.

The CHAIRMAN. And you asked your associates about something in addition. I thought I heard you say a million and something.

Mr. GREENE. I was thinking—that is a no-par stock. You see, I was thinking, I called it a par value of $1,000,000. Ten thousand shares at $100 would be worth a million.

The CHAIRMAN. What was it actually worth?

Mr. GREENE. Ten thousand shares of Cliff at no par value.

The CHAIRMAN. What was its actual value?

Mr. GREENE. That would depend on the market.

The CHAIRMAN. What was the market at that time?

Mr. GREENE. In my recollection, it has had a low——

The CHAIRMAN (interposing). I mean at the time the transaction was made.

Mr. GREENE. There were times when it was above par. I couldn't tell you now. I wasn't active then, Mr. Chairman.

The CHAIRMAN. You were paying a stock that was worth more than $1,000,000 for a two-thirds interest in a service corporation which did nothing but take orders from the directors of diverse property owning corporations.

Mr. GREENE. Their prospectus at that time showed their average earnings and they anticipated earnings of around $200,000 a year, which would make it not an unattractive investment. Of course, you remember we were back in the golden period.

The CHAIRMAN. But Mr. Mather didn't make any mention of the investment desirability of this exchange in the letter. He was talking about controlling certain tendencies which had prevented iron-ore producers from getting a reasonable price for their product.

Mr. GREENE. You are speaking of the telegram.

The CHAIRMAN. I am speaking now of the letter.[1]

Mr. GREENE. Of the letter.

The CHAIRMAN. Your mention now of the investment value of this purchase has never appeared in any of this transaction. All of these documents and letters and telegrams have to do with stabilizing the ore industry, not in the acquisition of an investment.

Mr. FELLER. May I say at this point, Senator, that the sentence which talks about preventing unreasonable tendencies begins by saying [reading]:

> The advantages that will accrue to us are that we share in their net profits to an appreciable extent, and * * *.

In other words, there are two reasons given.

Mr. GREENE. Senator, I think it would be well for all of us to bear in mind in connection with that telegram that it referred to Mr. Wade and myself, not in any connection with Oglebay, Norton or Cleveland-Cliffs. That was entirely due to the Montreal Mine and the question of whether the merger of Oglebay, Norton and Cleveland-Cliffs would be helpful or detrimental to Montreal Mine—there entered the question of just how Montreal Mine would dispose of their ore. You see what I mean? It wasn't addressed to Mr. Wade or me with any reference to Cleveland-Cliffs although it so happens we were both on Cleveland-Cliffs' board.

The CHAIRMAN. In acquiring this two-thirds interest in the management company, did you acquire power, whether or not ever exercised, to stabilize the prices paid for iron ore.

Mr. GREENE. I am sure we didn't.

The CHAIRMAN. Then you want us to understand that actually there was no meaning in the second part of this sentence in Mr. Mather's letter, that it was so much surplusage and might just as well have been left out.

[1] "Exhibit No. 1356," appendix, p. 10430.

Mr. Greene. I am quite sure that is correct.

Senator King. How could that service company fix the price of ore if the ore was purchased by these big manufacturing steel companies? This service company didn't use any of the ore and make steel commodities out of it, did it?

Mr. Greene. I don't see how they could, Senator.

Senator King. You were merely buying in order to sell to the big manufacturing companies, the big steel companies?

Mr. Greene. I am not speaking for Oglebay, Norton.

Senator King. This service company.

Mr. Greene. Yes.

Mr. Feller. Mr. Oglebay, to clarify the situation somewhat, at that time, in 1930, Oglebay, Norton was the exclusive sales agent, was it not, for three mines?

Mr. Oglebay. Yes, sir.

Mr. Feller. In other words, it sold ore on the open market.

Mr. Oglebay, according to the figures which you submitted to us, and on the basis of the calculations which we have made, it appears that in 1929 your company shipped 4.2 percent of the total shipments of the Lake Superior iron-ore industry. In 1930, at the time of the acquisition, you shipped 3.9 percent. Now, it appears that in 1937, which was the first year since 1929 to be compared in the matter of tonnage with 1929, your industry position was 2.6 percent on the basis of shipments. Would you say that your association with Cleveland-Cliffs Iron Co. has proved to be profitable?

Mr. Oglebay. No; I would say it is totally negative.

Mr. Feller. In other words, the association neither bettered your position nor resulted in your position diminishing.

Mr. Oglebay. We diminished. Our picture diminished, due to the adverse conditions in the steel business from '30 to '38.

Mr. Feller. Of course '37——

Mr. Oglebay (interposing). We did have about three mines more. In 1929 we had five mines, and during this period of 8 years of adversity we abandoned—that is, the various companies that owned these three properties abandoned—these properties, and that is the reason for the difference of these tonnages, so instead of operating five mines, which we did in '29, we were operating two properties in '39.

Mr. Feller. Mr. Greene, at the present time you have testified that Oglebay, Norton is operated independently, I think you said wholly independently, of Cleveland-Cliffs. If Cleveland-Cliffs desired, could it direct the activities of Oglebay, Norton & Company?

Mr. Greene. I think it has the legal power to do so, but it has never exercised it, and doesn't have any intention to do so, so far as I know.

Mr. Feller. Then would it be fair to say, in summary, that your company in 1930 acquired two-thirds of the stock, of the voting stock, of Oglebay, Norton & Co., which was a substantial competitor, that the president of your company at that time stated that the reason for the acquisitions were, first, to share in the profits, and secondly, to stabilize the market value of ore; that you have since operated Oglebay, Norton as an independent company and have not attempted to control its policies? Is that a fair summary?

Mr. Greene. I think, while he may not have mentioned it in that letter, I am quite certain that in the notices of the Cleveland-Cliffs

Iron Co., and I can't recall now whether it was in the annual statement or whether it was the letter sent to stockholders in connection with the approval of this item, the very first statement that Mr. Mather made over his signature was that the investment was made because it was regarded as a profitable and sound investment from the earnings standpoint, so that I think that should have been as prominently stated in the letter as it was in his communication, because I know that is what Mr. Mather felt at the time the purchase was made, and I agree with the rest of your statement.

Mr. Feller. I wonder if you could tell us again why you think Mr. Mather thought that this relationship should not be given publicity.

Mr. Greene. I think that had largely to do with the relationship of the two companies with their customers.

Mr. Avildsen. Will you explain that, Mr. Greene, a little better?

Mr. Greene. Well, there are strong friendships, and at least you can call them associations, in the steel business. Some of us are associated with some companies, and other ore companies are associated with others.

Mr. Avildsen. Could you hope to keep a thing of that sort secret very long? Wouldn't it soon leak out?

Mr. Greene. I think over a period of time I have no doubt it would become known. As a matter of fact there was so little control—not so little; there was no control exercised—that the companies have gone along as if this ownership never occurred, and I believe that the first time it was known was in the fall of 1935.

Mr. O'Connell. Mr. Greene, I am not at all clear, from your explanation, as to what your explanation means as to the reason for not giving any publicity to this. Will you be a little more explicit? Who would have been offended if they knew?

Mr. Greene. I really think this: As I say, in the steel and in the ore business there are certain rather strong associations and certain companies and groups of companies buy from one group, and certain from another. Now it was probably advisable, or must have appeared advisable, to the management of Cleveland-Cliffs at that time that this matter should not be given publicity.

Mr Henderson. That is along the lines of the question I asked. If one steel company was buying from a group managed by Oglebay, Norton and knew that the ore company supplying a rival group was a dominant interest there, they might be likely to make a change.

Senator King. Isn't it just the same situation that we frequently have in business, some common buyer will not like John Jones, have some personal antipathy toward him, and if he knew he was associated with Dick Jones, with whom he was dealing, he probably would not buy from the latter either. It is a personal equation, personal likes and dislikes, rather than a question of benefits to be derived from the association.

(The witness nodded in agreement.)

Mr. O'Connell. Mr. Greene, you testified earlier that prior to the acquisition of this stock the Oglebay, Norton Co. was a substantial competitor of the Cleveland-Cliffs Co. Is that correct?

Mr. Greene. Yes.

Mr. O'Connell. Are you familiar with the prohibitions of section 7 of the Clayton Act? Did you ever hear of it?

Mr. GREENE. I have heard of the Clayton Act, but I don't believe I know of section 7 as such.

Mr. O'CONNELL. As I understand it, that is a provision that forbids a corporation to acquire stock in a competing corporation if the effect may be to substantially lessen competition. I wondered if you were sufficiently familiar with the transaction at the time it took place to tell us whether or not any consideration was given to that aspect.

Mr. GREENE. I feel certain it was submitted to capable counsel and passed on. I think if you will look at the figures of the volume of business of the two companies together, of the ores sold, you will still feel it was way, way below any possibility of getting within the range of what I suppose, or have supposed, was the clause in the Clayton Act.

Mr. O'CONNELL. You weren't sufficiently familiar with the details of the transaction to know just what consideration was given to that?

Mr. GREENE. I couldn't tell you now; I wasn't then active in the company and couldn't answer.

Mr. O'CONNELL. Would it be possible to direct a question to Mr. Feller as to whether any investigation was made by any department of the Government in that connection?

Mr. FELLER. Not that I am aware of. I don't know whether any Government agency knew of this transaction, and as Mr. Mather's letter states, it was desired that not much publicity be given to the matter.

Mr. O'CONNELL. The reason I raised the point is that there might have been other reasons for not giving publicity to the move, other than the desire not to have the competitors or suppliers know about it. But you aren't in a position to say?

Mr. AVILDSEN. You say this matter was mentioned to the stockholders in the annual report. Didn't that have the effect of publicizing the transaction? You say this transaction was reported in the annual report of your company, and Mr. Mather referred to it as a good deal for the company.

Mr. GREENE. I think I can give you that.

Mr. AVILDSEN. Didn't that have the effect of publicizing the transaction?

Mr. GREENE. It might not have had so much—I will read it to you:

> The acquisition of Oglebay, Norton & Company, extract from the annual report for the year 1930 of William G. Mather, President, to the stockholders of the Cleveland-Cliffs Iron Company, dated April 9, 1931.

This is the quote:

> This acquisition, together with an interest purchased in the strong and ably managed Oglebay, Norton & Company, considerably advances our position in the Lake Superior iron ore industry.

That was in the annual report, and of course was known to the limited number who were stockholders.

Mr. AVILDSEN. Is it a limited number? How many stockholders did you have at that time?

Mr. GREENE. Well, I would guess probably a thousand, or nine hundred. I think it was in excess of a thousand.

Mr. AVILDSEN. Then I would say the transaction was not kept very secret.

Mr. GREENE. A thousand or eleven hundred, the secretary states.

Mr. O'Connell. I notice in reading again Mr. Mather's letter that he suggested other reasons for not according publicity to it. He says [reading from "Exhibit No. 1356"]:

as such publicity might result in opposition on the part of the public, or the consumers, to a move which they may construe as tending towards an undue control of prices.

Does that suggest to you that possibly that consideration might have been pertinent?

Mr. Greene. Well, I don't know, of course, what was in the writer's mind, but as I stated a minute ago, I feel that the total amount of business out of all the ores shipped by these two companies was a matter of so small a percentage of the whole that it would have no public interest, or detrimental interest.

Mr. O'Connell. You are in effect saying that you are not in accord with Mr. Mather's view as expressed in that letter?

Mr. Greene. I am not. That is right.

Mr. Feller. Mr. Chairman, I desire to go on and question Mr. Greene, with respect to other matters of which Mr. Oglebay would have no first-hand knowledge, and may I request that Mr. Oglebay be released for the time being?

The Chairman. Are there any other questions to be asked of Mr. Oglebay before he stands aside?

Very well, Mr. Oglebay, your presence will not then be required at the table for a few moments. Perhaps Mr. Feller may call you later.

Mr. Greene. Mr. Chairman, I have been told and I now recall, that the Oglebay-Norton merger was announced in the papers, and I believe in writing to Mr. Elliott, who is the manager of our mining department located at Ishpeming, but who is also the manager of our mines on the Mesaba and our mine on the Menominee Range, he may have felt, and the Oglebay-Norton people especially might have felt, it affected adversely their working organization, and while that isn't made very plain in Mr. Mather's letter, you can readily understand that if our mining organization (and they are very keenly competitive in a sort of technical and professional way) were to indicate to the people managing the mines of Oglebay-Norton that they were taken over by Cleveland-Cliffs, it would have a very detrimental effect on their esprit de corps.

The Chairman. That idea was set forth very clearly in Mr. Mather's letter in the second paragraph from the end, and he went into it there at such length that it would seem almost to be an independent thought from that conveyed by the sentence to which Mr. O'Connell was referring.

Mr. Feller. Mr. Greene, referring again to the chart entitled "Financial Connections Between Major Iron Ore Companies and Steel Companies," you will notice that just above the name Cleveland-Cliffs Iron Co. occurs the name The Cliffs Corporation. Can you tell us what the Cliffs Corporation is and what was the occasion of its formation?

Mr. Greene. The formation of the Cliffs Corp. goes directly back to the statement that I made in connection with certain questions a short time ago. There had taken place between '22 and '29 a great many mergers in the steel business, and I gave the reasons for those—increased freight rates, taxes, overhead expenses and so on—and more

especially the desire of the steel companies to broaden their scope of products and to reach all markets.

Now, to accomplish that, as I stated before, you can do it in two ways. You could add on to all the existing units the portions they didn't possess and you could build additional plants in the other principal steel-consuming markets. The other way to do it was by merger. Mr. Eaton had, through the investment companies——

CYRUS S. EATON PROJECT FOR MIDWESTERN STEEL MERGER

Mr. FELLER (interposing). Pardon me just a moment. Can you tell us the full name of Mr. Eaton?

Mr. GREENE. Mr. Cyrus S. Eaton. He had, through his investment companies, acquired large blocks of steel stocks.

Mr. FELLER. Could you tell us which they were?

Mr. GREENE. I don't know as I am competent to say on the stand. I know they included Central Alloy——

Mr. FELLER (interposing). May I read the list to you, Mr. Greene, and you can then check?

Senator KING. I suppose that would be hearsay, or are you speaking of your own knowledge?

Mr. GREENE. They passed from that into the Cliffs. He may have had some others that didn't, but I know he did have these.

Mr. FELLER. They included Trumbull Steel, Republic, Inland Steel, Central Alloy, and Youngstown Sheet & Tube.

Mr. GREENE. They included all of those, and Wheeling. He had acquired these, and they were held in, say, four investment companies. He had worked very hard for maybe a year or two to bring about what was commonly called the Midwestern Steel Co., and had gotten pretty far along in his negotiations, as he thought and as we thought.

The question then came up of whether, with this merger and the bringing together of the holdings of the ore of those companies, it would not be an opportunity for Cleveland-Cliffs to become the raw material, or the iron ore, company of that big projected steel company. In the spring——

Mr. FELLER (interposing). May I interrupt you just a moment? How would this projected steel company have ranked in the steel industry?

Mr. GREENE. It would have ranked second.

Mr. FELLER. Larger than Bethlehem?

Mr. GREENE. Yes, sir; if they had got all they hoped to get. Of course, we were not participating in it; we were getting the story second-hand. I am making this statement as of what I understood it to be.

That went along for a number of months, and in the spring of '30 Mr. Eaton represented that be had reached the point where he wanted to know whether Cleveland-Cliffs wanted to become the raw material company or whether it did not. He not having a definite plan to put down on the table to say "Here is what we have," naturally you weren't in a position to either accept or decline any such invitations

It progressed to the point where the management and the Board felt that the chances of his success in bringing about that company were very good.

Senator KING. Speaking of your own company now?

Mr. GREENE. Yes, our own company—were very good, and when he suggested that he would like to know definitely, for two reasons; he wanted to consider some other ore ownership if we didn't do it, and in the second place he was frank to say that possibly the inclusion of Cleveland-Cliffs in that might be helpful in getting the groups of the steel companies together.

There was a meeting held in California in the spring of 1929 at which the plan of organizing the Cliffs Co., which would tie Cleveland-Cliffs in with blocks of stock of companies that there was a reasonable feeling would go into that merger with the others, that would be a proper step to take then, with the next step, of course, which would have to be approved by Cleveland-Cliffs, that they could vote to become an integral part of it, but that was what I might call a preliminary step.

They therefore arrived at a valuation, tentatively, of Cleveland-Cliffs. Cleveland-Cliffs changed its capitalization, issued preferred stock to its stockholders and then its stockholders contributed the common stock of Cleveland-Cliffs into the treasury of the Cliffs Corporation, receiving back Cliffs stock share for share in place of their Cleveland-Cliffs common. These investment companies contributed listed common steel stocks to offset the common of Cleveland-Cliffs, both of which had a valuation of approximately 40 million.

Therefore, you had created the Cliffs Corporation as a holding company with, at that time, 40 million of common listed steel stocks, and all the common stock of Cleveland-Cliffs Iron.

Now I am giving approximate figures. All the stock didn't come in for a year or 2. I think 200 shares stayed out, and the total stock there was a little under 800,000.

I testified that Oglebay, Norton got 10,000 shares of Cliffs. Oglebay, Norton technically got 10,000 shares of Cleveland-Cliffs Iron common, and immediately deposited it in the Cliffs Corporation and got 10,000 shares of Cliffs, so that brought the stock of the Cliffs Corporation to something like 808 or 810 thousand shares.

The formation of Cliffs, as you can readily see, was a direct carrying out of a bigger plan which, in fact, never materialized.

Mr. FELLER. Mr. Greene, in 1930 a merger did take place, did it not, which resulted in the formation of the Republic Steel Corporation? Was that a step in this larger plan which, as you just said, never fully eventuated?

Mr. GREENE. It was, to a certain extent.

Mr. FELLER. Do you remember which companies were merged together to form the Republic Steel Corporation?

Mr. GREENE. The Republic Steel Company, the Central Alloy, the Donner Steel and the Bourne Fuller.

Mr. FELLER. At that time Republic Steel Corporation was known as Republic Iron & Steel Co.

Mr. GREENE. It became the Republic Steel Corporation.

Mr. FELLER. And Mr. Tom Girdler became the head of that corporation at that time, did he not?

Mr. GREENE. My recollection is he became chairman on April 8, 1930.

Mr. FELLER. You and Mr. Mather asked him to assume that chairmanship?

Mr. GREENE. I did not.

Mr. FELLER. Oh, I'm sorry. Do you know whether Messrs. Mather and Eaton asked him to assume that chairmanship?

Mr. GREENE. I am not competent to testify to that. I was in the banking business.

Mr. FELLER. This is not very important.

Senator KING. Did the Republic Steel Co. that was thus formed survive?

Mr. GREENE. Yes, sir.

Senator KING. Is it functioning now?

Mr. GREENE. It is functioning every day.

Senator KING. Was it anticipated that the Republic Steel Co. would take the place of the Midwestern Co. that Mr. Eaton had in mind?

Mr. GREENE. That was to be one, possibly the largest, unit of five or six that would have been in that company.

Senator KING. And that was to be promotive of competition in the steel industry?

Mr. GREENE. I think probably it would help stabilize the steel industry. I think it was a sound idea. They were a group of steel companies located in the Midwest——

Mr. FELLER (interposing). Mr. Chairman, merely to clear up this small point, I should like to read for the record a few sentences from a memorandum prepared by Mr. E. B. Greene dated May 3, 1935, and taken from the files of the Cleveland-Cliffs Co.

The CHAIRMAN. Will Mr. Greene identify it?

Mr. FELLER. Can you identify this as having been taken from the files of your company? It has your name typed at the bottom.

Mr. GREENE. Yes.

The CHAIRMAN. That is from your files?

Mr. GREENE. Yes.

Mr. FELLER. The memorandum tells about a conversation with Mr. Girdler and states:

> He (Mr. Girdler) then went on to recite that he had come to Cleveland in no small measure due to the fact that he understood that he would be closely associated with the Mather interests; that he had had but little contact with Samuel Mather or his firm, but that he had seen a great deal of Mr. Wm. G. Mather and had a very strong feeling of friendship and admiration for him and desired to do everything he could for their interests; that he regarded Cleveland-Cliffs Iron Company and Republic Steel as members of the same intimate business family, and felt that the relations should be not only close but mutally profitable.

Mr. Greene, you have previously stated Mr. Cyrus Eaton's plan for large steel consolidation never went through.

Mr. GREENE. Never went through.

Mr. FELLER. When would you say it, shall we say, collapsed?

Mr. GREENE. Well, it collapsed largely due to the depression. That was the principal reason. I think there was one other contributory reason.

Santor KING. Then it collapsed substantially in 1932?

Mr. FELLER. Somewhat earlier, was it not?

Mr. GREENE. It started to go off by, I would say, the late spring of '30. The steel business carries over after a depression and comes back last.

Mr. FELLER. However, subsequent to the collapse of this plan, your company still desired to see a further consolidation of steel companies, did it not?

Mr. GREENE. Could you be a little more specific?

Mr. FELLER. Well, I think it would be clearer if I were to introduce a memorandum signed by you dated December 11, 1933, certified to be a true copy by the secretary of your company.

Senator KING. A true copy of a letter by Mr. Greene?

Mr. FELLER. Yes; I offer that.

The CHAIRMAN. Has the witness identified that?

Mr. GREENE. Yes.

The CHAIRMAN. It may be received.

(The memorandum referred to was marked "Exhibit No. 1359" and is on file with the committee.)

Mr. FELLER. The memorandum states in part [reading]:

> Messrs. William G. Mather and E. B. Greene were to see Mr. Girdler [that is, the Chairman of Republic Steel] and urge the proposition on the broad view that if we were to cooperate with them in consolidating steel properties, it was only logical and fair for them to cooperate with us in managing ore properties.

It is not necessary to print the whole of the memorandum for the record.

The CHAIRMAN. You want only that which you have read? The reporter already has that.

Mr. FELLER. In short you were, Mr. Greene, prepared to cooperate with Republic Steel in consolidating steel properties?

Mr. GREENE. That refers directly, I believe, to our ownership of originally 62.5 percent of Corrigan, McKinney, which we purchased in 1930, and which we merged with Republic later on. When I said that I was referring directly to a steel company in which we had a very large investment, that either we would have to go on and spend a great deal of money because its principal product was merchant bars, semifinished, or we had to take stock for it in a steel company who would develop it, just as Republic has, and they have spent many millions there putting in mills adjoining, and an integral part of, Corrigan, McKinney.

Senator KING. As I understand your statement, it did not refer to the Cliffs organization or the Cleveland-Cliffs Iron Co.

Mr. GREENE. Cleveland-Cliffs is the operating and owning company.

Senator KING. You mentioned Corrigan, McKinney, and I supposed it was a different corporation to which you referred.

Mr. FELLER. May I clarify that? Mr. Greene, what you have stated is this, that some time in the thirties, to be precise in 1935, a merger was accomplished between Republic Steel Corporation and another steel company known as Corrigan, McKinney & Co., and that Cleveland-Cliffs owned at that time the controlling interest in Corrigan, McKinney & Co.

Mr. GREENE. That is correct. That is what I intended to say.

Mr. FELLER. Now by this merger in 1935 Republic Steel became, did it not, the third largest unit in the steel industry? It is such now.

Mr. GREENE. If my memory is correct, it was the third before. But it was third by a bigger margin.

Mr. Feller. It became a still larger unit.

Is it correct to say that at that time the Cleveland-Cliffs Iron Co. attempted to induce this Otis Steel Co. to enter this merger?

Mr. Greene. No; that isn't correct. They did nothing to induce Otis. Republic, I think, carried—I know carried on negotiations with Otis, but Cleveland-Cliffs was interested in both companies and did not endeavor to influence either.

Mr. Feller. Did Cleveland-Cliffs desire that the Otis Steel Co. go into this merger?

Mr. Greene. I think they would have favored it.

Mr. Feller. Did the directors of Cleveland-Cliffs take any step to convey this desire to Otis Steel?

Mr. Greene. I am sure they did not.

Mr. Feller. I show you a memo, headed "Statement of William G. Mather to the board of directors of Otis Steel Co." William G. Mather was then the president. The date of it is August 2, 1934. At that time was Mr. William G. Mather president of Cleveland-Cliffs?

Mr. Greene. No.

Mr. Feller. What was his position?

Mr. Greene. Chairman of the board.

Mr. Feller. He was chairman of the board. This statement is certified to be a true copy by the secretary of your company. See if you can identify that. It has not your name on it, but it is certified.

Mr. Greene. I feel confident that it is a true copy.

Mr. Feller. I offer this for the record.

The Chairman. It may be received.

(The exhibit referred to was marked "Exhibit 1360" and is included in the appendix on p. 10433.)

Mr. Feller. Reading from the statement of William G. Mather to the board of directors of Otis Steel Co.:

> I desire, in behalf of myself and the other Board-members who are also Directors of The Cleveland-Cliffs Iron Company—

How many such are there?

Mr. Greene. Then or now?

Mr. Feller. In 1934. How many members of the board of Otis Steel were directors of Cleveland-Cliffs?

Mr. Greene. I am sure Mr. Mather and Mr. Raymond were and Mr. Croxton might have been active then in Cleveland-Cliffs. I don't recall just when he severed his connection. I would say three directors:

Mr. Feller (reading from "Exhibit No. 1360"):

> I desire, in behalf of myself and the other Board members who are also Directors of The Cleveland-Cliffs Iron Company, or officials of that Company, to state our position with reference to the proposed negotiations with Republic Steel Corporation and The Corrigan, McKinney Steel Company. We feel, and are advised by counsel, that in view of the large ownership of The Cleveland-Cliffs Iron Company in the stock of Corrigan, McKinney and its substantial ownership of Republic stock, as well as its ownership of shares in Otis Steel Company, it would not be proper for us to vote upon or participate in any corporate action involving the sale of the assets and business of Otis Steel Company to, or its consolidation with, Republic, and in case the time arrives when such questions are presented to this Board for determination, we will withdraw, leaving the other members of the Board free to act in such manner as they shall deem for the best interests of the Company.

We are, however, advised by counsel that it is not only our privilege, but it is our duty, to express to the other members of the Board our general views as to the desirability of giving consideration to this subject so that you may have the benefit of such general information regarding the industry as we possess and be advised as to how the large stock interest which we more particularly represent regards it.

While no one appreciates more than we the excellent record made by the management of Otis Steel Company, especially during the first half of 1934, we think, nevertheless, that it would be for the best interests of the Company to bring about the consolidation on some fair and proper basis of Otis Steel Company with Republic and Corrigan.

In other words, it is true, is it not, Mr. Greene, that on the basis of this statement the officials or the directors of Cleveland-Cliffs Iron Co. who were on the board of Otis Steel urged on the other members of the board of Otis Steel the advisability of entering into this merger?

Mr. GREENE. No; I wouldn't say urged. I would say they expressed their opinion as to whether or not the future was brighter for Otis, one way or the other, that is, the stockholders, but they did nothing beyond expressing that opinion and then they withdrew.

Mr. FELLER. I accept that.

Senator KING. Would those companies, if they were merged, complement each other, supplement each other?

Mr. GREENE. Very much at that time.

Senator KING. One having activities in ores and contracts quite different from the other?

Mr. GREENE. You can see that the Otis turned down the merger in '34 and the Corrigan, McKinney was acquired in '35. Now it is another example of just what I was speaking about, of mergers which are sound economically because they supplement each other and take the place of the expenditure of millions of new money.

Senator KING. I assume that some corporations would have large transportation facilities, boats upon the Great Lakes or railroads, and others, none. Some might have large iron holdings and others, none. Some would manufacture one commodity, one form of steel commodity, and make a specialty of that, and others not. But a merger or uniting of them would make for economy and for better results all around.

Mr. GREENE. That is right.

Mr. FELLER. It was true, however, was it not, that Otis Steel and Republic Steel at that time did manufacture products of the same character; in other words, that they were competing corporations?

Mr. GREENE. Well, Republic was anxious to have a sheet mill in Cleveland, on the lake, and here was Otis with a continuous mill and they would have been glad to have acquired it. They afterwards acquired Corrigan, McKinney and built the mill.

Mr. HENDERSON. Mr. Feller, I don't think we got the answer to that question. May I put it this way? There is no question, is there, that Otis and Republic were competing in some products?

Mr. GREENE. Which?

Mr. HENDERSON. Otis and Republic.

Mr. GREENE. Well, they are all in the steel business, yes, competing just like a big steel company competes with any small steel company.

Mr. HENDERSON. Is there some special competition between a big steel company and a small steel company?

Mr. GREENE. What I mean is, Republic had a good many products and Otis has a very limited number of products. It is a small company—"strip sheets and plates," and that is all.

Mr. FELLER. Mr. Greene, do you know what the attitude of the management of the Otis Steel Co. was toward their participation toward this contemplated merger with Republic Steel?

Mr. GREENE. I would draw the conclusion from the fact it didn't take place that they were opposed.

Mr. FELLER. Did the president of the Otis Steel Co. make known to you the fact that they were opposed?

Mr. GREENE. You mean at that time?

Mr. FELLER. At that time.

Mr. GREENE. I don't now recall. I think afterward he made it known to me. I don't recall any conversations, I can't locate any particular time, but afterward I know he was opposed from what he said to me.

Mr. FELLER. I show you a memorandum signed by you, dated August 26, 1935.[1] That is after the merger was accomplished, is it not?

Mr. GREENE. Yes.

Mr. FELLER. It is certified to be a true copy by the secretary of your company. Will you identify it, please?

Mr. GREENE. I can identify it.

Mr. FELLER. I should like just for a moment to clear up a point. Do you remember exactly when the merger between Republic and Corrigan, McKinney went through?

Mr. GREENE 'Thirty-five.

Mr. FELLER. And the month?

Mr. GREENE. My recollection is, it is August, but I am not certain. It was between August and October; actually, September 25.

Mr. FELLER. We have this memorandum which is dated August 26, 1935, which is prior to the complete consummation.

Mr. GREENE. No; he said September 25.

Mr. FELLER. It was just a month prior.

Mr. DAY.[2] The letter to Corrigan, McKinney went out in August 1935.

Mr. GREENE. It was definitely agreed upon in August.

Mr. FELLER. But it had not yet been effectively accomplished. Now, reading from this memorandum, signed by you, written on August 26, 1935, you state as follows—this memorandum relates to conversations between you and Mr. Kulas, K-u-l-a-s, who was then president of the Otis Steel, and you say in part [reading]:

> Mr. Kulas, on the other hand, expressed frankly his feeling that Otis Steel Company was not especially friendly, that he was violently opposed to the Republic merger and that he felt that Cleveland-Cliffs would have been glad to have forced Otis Steel Company in.

And then, toward the end of that paragraph, you state [reading]:

> Mr. Kulas said we had only one thing to do and that was not to force him into the Republic merger. Every few sentences, Mr. Kulas reverted to the Republic merger.

It is true then, that the Otis Steel Co. was opposed.

Mr. GREENE. I think that is a mild statement.

[1] Not introduced for the record.
[2] Luther Day, counsel for Cleveland-Ciffs Iron Co.

Mr. FELLER. The Republic merger, as has been said several times, was accomplished in 1935. Subsequent to that merger, did Cleveland-Cliffs stand ready to aid or cooperate with Republic in further consolidations or mergers, to your recollection?

Mr. GREENE. I haven't any recollection of any cooperation that was asked or offered. I know of none that was under contemplation, offhand.

Mr. FELLER. I show you a memorandum signed by you, dated April 14, 1936, taken from the files of your company and certified to be a true copy by the secretary. Will you identify that, please?

Mr. GREENE. Right.

Mr. FELLER. I offer this.

The CHAIRMAN. The document may be received.

(The memorandum referred to was marked "Exhibit No. 1361," and is included in the appendix on p. 10433.)

Mr. FELLER. This memorandum, again, relates a conversation between you and Mr. Girdler, the chairman of the Republic Steel Corporation. You state [reading]:

> The writer then said that he wanted to discuss with Mr. Girdler three things: first, the big general policy which looked into the future of both companies, then going back into the original plan of a midwest steel company and Cleveland Cliffs' relation to it, and calling attention to the very large holding in Cliffs Corporation and the possibility that matters of investment in steel companies might be arranged to further the growth and prosperity of Republic as well as Cleveland Cliffs.

Is that a correct statement to your recollection, does that refresh your recollection, Mr. Greene?

Mr. GREENE. I don't recall it, but I don't question it at all.

Mr. HENDERSON. Could I ask a question there? Is it fair to assume that all this time you considered the possibility of a midwest steel company and had hoped to achieve that in the form of Republic?

Mr. GREENE. I can only express my personal view, that I have had no such hope for a good many years.

Mr. HENDERSON. Adverting to this language.

Mr. GREENE. I think that is a general expression of hope as to volume of business, that we both prosper, and maybe that was along the lines of feeling that we would like to enjoy more business from Republic. Rather a natural hope on our part.

Mr. HENDERSON. That you might get the same volume of business from Republic that you expected to get from the proposed Eaton merger.

Mr. GREENE. Yes.

Mr. HENDERSON. And you think it was nothing more than that.

Mr. GREENE. I haven't any recollection of anything more.

Mr. HENDERSON. In other words, you had no particular companies in mind which you suggested Mr. Girdler make advances to concerning coming into the Republic.

Mr. GREENE. I can't now recall anything that was under consideration or that I had in mind.

Mr. FELLER. Mr. Greene, could you explain the meaning of this phrase, this sentence in the memorandum (reading):

> calling attention to the very large holding in Cliffs Corporation and the possibility that matters of investment in steel companies might be arranged to further the growth and prosperity of Republic as well as Cleveland-Cliffs.

What I should like to ask you to explain is how an investment in a steel company other than Republic could be used to further the growth and prosperity of Republic.

Mr. GREENE. Well, I presume that simply means that I was endeavoring to get a larger portion of Republic's business than they might have had in mind. I haven't any specific thing in mind, but just the general idea to discuss with him and see if he had anything in his mind about this matter of more business.

Mr. HENDERSON. How would your holdings in Inland and Youngstown and Otis and Wheeling be an advantage in getting more Republic business?

Mr. GREENE. Our biggest holding is in Republic, much our biggest. No; it couldn't.

Mr. HENDERSON. I think that was the question Mr. Feller asked.

Mr. FELLER. Yes, that was the question.

Mr. HENDERSON. Will you read that language again?

Mr. FELLER (reading):

calling attention to the very large holding in Cliffs Corporation and the possibility that matters of investment in steel companies might be arranged to further the growth and prosperity of Republic as well as Cleveland-Cliffs.

Mr. GREENE. I think it was to find out from Mr. Girdler whether he had any plans in mind. I know I didn't have any plan in mind.

Mr. HENDERSON. This is your memorandum and your language. It is just that you don't recall what you did have in mind at that time as to how you could further the business of Republic by your holdings in rival companies?

Mr. GREENE. I haven't any recollection. I would put it maybe the other way, of whether a further investment in some other company might benefit Republic, rather than investment of those——

Senator KING (interposing). Did you have in mind—I will modify that in view of your statement. The company mentioned in your letter here would refer to your ore company?

Mr. GREENE. Oh, it would refer to the ore business, yes.

Senator KING. And that was the purchase of ore and the selling of ore, rather than the manufacturing of steel commodities?

Mr. GREENE. We are not at all in the iron and steel business.

Senator KING. So if there was any union or combination or business relations between your company and the Republic, it would be a seller upon your part of ores and the purchaser by the Republic Company on the other side of the ores which you had to sell.

Mr. HENDERSON. This memorandum refers to matters of investment in steel companies. Did you have in mind at the time that perhaps you might through Cliffs buy into some other steel companies and thereby assist the growth of Republic and yourselves at the same time?

Mr. GREENE. I think that that must have been my general thought, but I had nothing specific in mind.

Mr. HENDERSON. You don't know of companies that you thought of at that time?

Mr. GREENE. None that I recall.

Senator KING. And did you acquire any companies after that time?

Mr. GREENE. None.

Senator KING. You have none now?

Mr. GREENE. No.

Mr. FELLER. At the present time, Mr. Greene, you hold stock—referring now to the chart[1]—Cleveland-Cliffs Iron Corporation, considered as a unit, have stockholdings in Wheeling, Otis, Republic, Inland, and Youngstown? That is correct, is it not?

Mr. GREENE. Between the two companies?

Mr. FELLER. Yes.

Mr. GREENE. Correct.

Mr. HENDERSON. And they act in the nature of an investment trust, do they not?

Mr. GREENE. Cleveland-Cliffs got one or two stocks in different ways. They got their stocks from having turned in some furnaces. We turned in the Cleveland furnaces to Otis and were paid in stock, so what we had formerly was a furnace and what we had later was stock. That is in Cleveland-Cliffs. The four stocks that are in Cliffs Corporation are Wheeling, Republic, Inland, and Youngstown, and in Cleveland-Cliffs we have Otis, a little Wheeling, and a large amount of Republic that we got in trade for investments like Corrigan, McKinney, and one or two small investments, Trumbull Furnace, that became part of the Trumbull plant after the company took it over.

Mr. HENDERSON. After the acquisition of Corrigan by Republic, the plant facilities of Corrigan have been utilized pretty completely, have they not?

Mr. GREENE. Yes, indeed. In general you can see that the steel stocks held in Cleveland-Cliffs are the result of receiving those stocks in trade for assets that were turned over to the steel companies.

Mr. FELLER. Is it correct, or would you be able to state, that of the five steel companies mentioned, your company is the largest stockholder with the exception of Republic? That is to say, that your stockholdings in Wheeling, for example, are larger than that of anyone else, and the same with Otis, Inland, and Youngstown.

Mr. GREENE. No; I would question that. We are the largest common-stock holder in Republic.

Mr. FELLER. I am considering now voting stock.

Mr. GREENE. Well, maybe it would be less than that for voting stock. Some of these, Otis——

Mr. FELLER (interposing). You are the largest holders.

Mr. GREENE. We were not for a number of years, but, I think, a larger holding has been dispersed, so I think we are the largest in Otis.

In Wheeling we have 30,000 only of common, and what we got in the preferred; when that was delinquent we were paid the delinquency in common. That is all we have.

In Inland we are the second or third interest there. It may not be so registered, but we are not better than the third.

And in Youngstown, again I think we may be the largest in a single name, but if you were to take a group of holdings we would not be the largest there.

Mr. FELLER. Mr. Chairman, I shall go on with other subjects in connection with the testimony of Mr. Greene, and I would suggest that since those subjects will take considerable time, it might be advisable for the committee to conclude questioning Mr. Greene at this time before the recess on matters which have already been discussed.

The CHAIRMAN. You have no further questions?

[1] "Exhibit No. 1353," appendix, p. 10427.

Mr. Feller. On these matters which have been elicited up until now.

The Chairman. Do any members of the committee desire to pursue this matter now? If there are no questions, then the committee will stand in recess until 10:15 tomorrow morning.

(Whereupon, at 4:40 p. m., a recess was taken until Thursday, November 2, 1939, at 10:15 a. m.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

THURSDAY, NOVEMBER 2, 1939

UNITED STATES SENATE,
TEMPORARY NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The committee met at 10:30 a. m., pursuant to adjournment on Wednesday, November 1, 1939, in the Caucus Room, Senate Office Building, Senator Joseph C. O'Mahoney presiding.

Present: Senators O'Mahoney (chairman) and King; Representatives Williams and Reece; Messrs. Henderson, Avildsen, O'Connell, and Brackett.

Present also: Willis Ballinger, representing the Federal Trade Commission; John V. W. Reynders, representing the Department of Commerce; Gordon Dean, representing the Department of Justice; A. H. Feller, Special Assistant to the Attorney General; John W. Porter, Hyman B. Ritchin, Irving Glickfeld, Ward S. Bowman, and Monroe Karasik, Department of Justice.

The CHAIRMAN. The Committee will please come to order. Mr. Feller, are you ready to proceed?

Mr. FELLER. Yes, sir.

Mr. Greene, yesterday we had been discussing the acquisition of stock interests by Cleveland-Cliffs and by the Cliffs Corporation, in a number of steel companies, as part of a step to bring about a merger—a larger merger of steel companies. Isn't it also correct to say that one of the reasons for the acquisition of these stock interests in steel companies by Cleveland-Cliffs was to secure a market for iron ore?

TESTIMONY OF E. B. GREENE, PRESIDENT, CLEVELAND-CLIFFS IRON CO., CLEVELAND, OHIO—Resumed

Mr. GREENE. I would say not, except as it related to the formation of that company.

Mr. FELLER. I am afraid I don't quite understand that.

Mr. GREENE. Well, the idea that was in the minds of the Cleveland-Cliffs in forming the Cliffs Corporation was that the larger company would be formed and that Cleveland-Cliffs, if they chose to, would have the opportunity of becoming a raw-material division, you might say, or company, of that larger company.

Senator KING. Is that larger company the one that was envisioned by Mr. Eaton or by the Republic, or what company?

Mr. GREENE. It was envisioned by Mr. Eaton, who submitted it to Mr. Mather.

Mr. FELLER. In other words, if I understand you correctly, at the time of the formation of the Cliffs Corporation, which was about 1929,

it was then hoped that by acquiring these interests in steel companies, it would be possible to bring about a merger and that Cleveland-Cliffs Iron Co. would then have a larger market for its ore?

Mr. GREENE. It is a little more complicated, possibly, than that. It tied the equity of the Cleveland-Cliffs into a portion of the equity of four or five steel companies, with the thought that if Cleveland-Cliffs did go into that larger unit as the raw-material company, it would naturally convert those steel stocks into the stock of the new company and would give it a commanding or rather an influential position in that new situation, and that if the Cleveland-Cliffs became the raw-material division or company of that larger unit, why the needs of that company would undoubtedly take care of its support.

Mr. FELLER. And do you consider that your holdings in steel companies at the present time are an aid in disposing of your ore?

Mr. GREENE. Well, I don't consider they are a detriment, but I think we have to work pretty hard to sell our ore in competition with the others. I have found it so in the last 6 years.

Mr. FELLER. I show you, Mr. Greene, a copy of the directors' minutes of the Cliffs Corporation, dated April 13, 1937, certified to be a true copy of the secretary by the Cliffs Corporation.[1] Would you identify that, please?

Mr. GREENE. That is correct.

Mr. FELLER. In these minutes there occurs the statement by the president of Cliffs Corporation—that was you—to this effect [reading]:

> The president stated that this company and the Cleveland-Cliffs Iron Company, the entire common stock of which is owned by this company, are both owners of large amounts of stock in steel corporations. He stated that this company was not an investment trust in the accepted sense of the term, but was organized for the definite purpose of holding certain securities, the ownership of which might be helpful in disposing of its ore.

Now that statement was made in 1937. Would the recollection of that statement in any way modify your previous answer?

Mr. GREENE. No; I said they might be helpful. I stated a moment ago it certainly wasn't detrimental. What I meant by that was that we exercise no control or effort in any way to bring any influence on those steel companies to do business with us. We know that we have to meet competitive conditions, and we have to serve them as well, if not better, than our competitors, and I think the two are entirely compatible. The Cliffs Corporation was formed for the purpose I stated, and having been formed, we find ourselves tied into that Cliffs Corporation, and we got those stocks. You read just part of it. The rest of it shows exactly the point I am going on to make, that we wanted to hire a young man as analyst to spend all his time in studying these steel stocks from the investment standpoint, and for our own and confidential use to make a study of them as investments. What I mean there by contrasting it with an investment trust, an investment trust buys and sells; now we weren't buying and selling; we simply held the stocks that we acquired in '29, and we felt it was due to the stockholders of the Cliffs Corporation to fully inform them about these companies. That was the introduction to suggesting the employment of the young man to do that.

Mr. FELLER. Would you say, then, that at the present time your interest in these steel companies in which you hold stock is merely to

[1] Not introduced for the record.

receive the proportionate share of the profits which your stockholding represents?

Mr. GREENE. I would say that having them, that that is the reason. I would say if the cause of the Cliffs Corporation formation had not existed in 1929 that we would not own those stocks today, or would not purchase them. And I also think that my statement is borne out by this fact, that we have since the formation of the Cliffs Corporation not bought a single share of additional stock in any of these companies, with the exception of a small amount of rights under the market that we were awarded a few years ago. So that we had no intention of carrying on the idea that we bought in '29, or rather—not bought, they were acquired in that merger; and they have continued to be held, even though the reason for being so has been done away with.

Mr. FELLER. Then I take it from your statement that your only interest in these corporations at the present time is to receive dividends on the stock as dividends accrue?

Mr. GREENE. Well, we would be foolish if we didn't have friendly relationships with companies which we are interested and have a large investment, to the extent that it is proper. I hoped it would bring about friendly relations, but I am quite positive, and I speak from personal knowledge of at least 6 or 7 years, there never has been any pressure brought on any of those companies to give us business except as anyone would have obtained it.

Senator KING. May I ask a question to determine the relevancy of this testimony.

I don't quite understand perhaps all of its implications. Was your corporation, the Cliffs Corporation, organized primarily and solely in the beginning for the purpose of buying ore and selling ore?

Mr. GREENE. Do you mean Cliffs or Cleveland-Cliffs?

Senator KING. Cleveland-Cliffs.

Mr. GREENE. Cleveland-Cliffs and its predecessors go back to, well, 1845, 1850, and their sole purpose was to mine ore and transport and sell it, and that has been their primary interest. Any other things that they go into were due to two things; first, because we were pioneers and went up into a wilderness, and second, because there weren't any facilities up there and we had to get them. Your question leads directly to this: Why do we own timber and have other interests? Originally the iron was made up in the Lake Superior region, and there were a great many small charcoal bee hive furnaces, and then a little later, as early I think as the fifties, they built furnaces up there, charcoal iron furnaces. Those furnaces consumed a great deal of hardwood, and in order to have the hardwood, you had to buy the land. Well, then, quite a good many years later the charcoal iron goes out of favor, the better made steel took its place, and Cleveland-Cliffs was left with those large holdings of land, and on the land was the timber.

We developed and went into certain things to use the hardwood. We used it in our mines, we used it in the wooden ware, and the softwood we took an interest in, and then mostly disposed of it, and the paper company, and we began to take an interest in the chemical company. As time went on we lessened rather than broadened our interest in those things, but they all grew out of the iron-ore business.

Now we had a lot of land with some swift-flowing rivers, and we developed hydroelectric power for our own use. We were the first people in this country to use power in a mine. Electricity had been used for lighting purposes but not as power. Our plant was originally only a plant facility. Well, then, the district grew a little bit, other people wanted that, and we turned it into a public utility. The same way with the railroad. Originally there was a plank road with a little 3-ton car pulled by mules down from Ishpeming to Marquette. Later on, in order to furnish better facilities, we built a railroad in conjunction with one of the Jones & Laughlin's mining subsidiaries.

You see, all of these things were tied back to the iron ore and the fact that in order to have the charcoal furnaces up there we needed land and timber, and that is why the Cleveland-Cliffs, they were a pioneer and were able to centralize their operations in one place, they were able to own fees, and they built up this picture because of that fact, but it all ties back into iron ore.

Senator King. Your company now is primarily an ore-buying and selling company.

Mr. Greene. Absolutely; yes, sir.

Senator King. Not an investment company.

Mr. Greene. No, sir.

Senator King. You have acquired some stocks in some corporations, primarily, I suppose, or at least one of the purposes was to widen your market for sale of your commodity.

Mr. Greene. Yes, sir; that is exactly correct. I am alluding to Cleveland-Cliffs Iron Co., not Cliffs. That is exactly what happened. In those days, say 1900 to 1915, the companies weren't as well integrated as they are now, and there were a number of concerns that wanted to get blast furnaces that didn't have them. Cleveland-Cliffs was then in a position to finance those and to become partners, in a way. We helped build, for example, the furnace for the Trumbull plant at Warren, and took stock in that and received a contract, formed with them the Trumbull-Cliffs Furnace Co., of which we owned half the stock, as I recall, and they owned half. We made that investment for the purpose of selling iron ore. As a matter of fact, I think we acted as a sort of agent in the construction, helped them in that way, and then helped them run that furnace, as a separate company.

Central Alloy developed a fine business in alloy steel. They were buying their pig iron. They wanted to become integrated, so we offered to help finance them in the same way.

Well, they said they would prefer we would take the interest in stock, so we said all right, and Cleveland-Cliffs took a third interest in their company and furnished the money to build their blast furnaces and open hearth.

Senator King. Does the greater part of the iron ore which you sell, is it mined from your own properties, or from other properties, properties owned by other companies?

Mr. Greene. It is all mined from our properties, which are owned considerably more than a majority, in fee. We only operate one property for others. We are owners of fee to an extent considerably above 50 percent.

Senator KING. What competition do you experience in the selling of your ores? What competition do you have?

Mr. GREENE. We are selling, for the most part, our own ore. Practically all of it is our own ore. We are merchants of ore and we are also the owner of the mineral deposit.

Senator KING. Do you have any competition in the purchases? Are there other corporations mining ores that are in competition with you in the same markets?

Mr. GREENE. Oh, yes, indeed. We are all competitors.

Senator KING. That is what I am trying to get at, the extent of the competition which your company has in finding markets for the ores which you mine and sell.

Mr. GREENE. We have very keen competition with somewhere between, I should think, eight or nine, all disposing of ore and all of them, practically all of them, with a great deal of ore.

Senator KING. Has there been any effort made by your competition to fix the price of ore?

Mr. GREENE. No. sir.

Senator KING. Or to create a monopoly for the mining and the disposition?

Mr. GREENE. We are naturally, like all sellers, all merchants, taking all the steps we can to get as much money for our ore as we can.

Senator KING. And is there competition in that field, Mr. Greene?

Mr. GREENE. Very keen competition.

Mr. FELLER. Mr. Greene, the purpose of the questioning up until now was whether these acquisitions of stock in steel companies were made in part in order to enable you to secure a wider market for your ore. That was the question which Senator King put to you at the beginning, and I understood you to answer "Yes."

Mr. GREENE. Will you repeat that? I didn't get it.

Mr. FELLER. Senator King, as I understand it, asked you whether one of the reasons for the acquisition of these investments in steel companies was to secure a wider market for your iron ore. Is that correct?

Senator KING. That was one of the questions.

Mr. FELLER. And I understood you to say "Yes."

Mr. GREENE. Senator King's remarks were addressed to the holdings of steel stocks by Cleveland-Cliffs Iron; the matter we were discussing was the Cleveland-Cliffs ores. The stocks in Cliffs arose in a different way from those in the Cleveland-Cliffs Corporation, the story of which I already told you. Does that clear that up?

STABILIZATION AND COMPETITION

Mr. HENDERSON. Yesterday, Mr. Greene, you testified, and I think very well, if I may be permitted to say it, as to the choice which lies in a period of integration and merger of an independent company, as to what it shall do to maintain its place in a period of integration and merger. Using my own phrasing, you said it had the choice of either expanding in order to make nearly all the products of its competitors, or of associating itself with a group which would give it a larger line of products. You felt, on account of the lack of demand for all the steel capacity that exists in ordinary times, that it was much preferable to go the merger method, and that was, I believe,

the route that was to be chosen in the Eaton enterprise and that was the purpose, was it not, to bring about a large integration which would make Midwest rank second in the industry?

Now, running through the correspondence and the telegrams which we had yesterday was this emphasis on the desirability of Cleveland and Oglebay Norton joining in an effort to stabilize, and the effect it would have on the stability of price. And then you responded later, I believe, to a question by Senator King whether this large unit that might be put together—he asked you whether it would be promotive of competition, and you said, "I think it probably would help stabilize the steel industry."

Do you have some distinction in your mind between stability and competition?

Mr. GREENE. Yes, yes.

Mr. HENDERSON. Would you mind——

Mr. GREENE (interposing). Well, I feel some hesitancy in discussing the steel business.

Mr. HENDERSON. You have shown yourself pretty alert about the steel business so far, Mr. Greene.

Mr. GREENE. I think that units that are integrated are better able to produce a sound economic condition than companies that are on a very different basis. I think that if you have, I believe, the 10 well-integrated companies would be a great deal better than a hundred less well-integrated companies.

Mr. HENDERSON. What would be the difference?

Mr. GREENE. I think you have better chances of producing the goods at a cheaper cost, which benefits the public, permits you to pay better wages, and makes for the prosperity of this country.

Mr. HENDERSON. You think, then, that the tendency toward integration is likely to have a better effect on cost, and I presume you mean consumer price also.

Mr. GREENE. I do.

Mr. HENDERSON. Than vigorous competition by a hundred small units?

Mr. GREENE. I certainly do. I think the mechanical ability of this country has produced what we call mass production, production in large amounts, at lessened cost. I think that is one of the greatest reasons that we have prospered in this country. I don't see how we could go back to small units and experience the benefits we have got now.

I know very little about those matters, but that is my firm conviction.

Mr. HENDERSON. Then in this drive toward bringing in a new large unit in the steel industry, you felt that would get away from the kind of competition which was unstabilizing and get toward a sounder basis of production and price.

Mr. GREENE. Well, when you refer to those papers or letters, those weren't mine. That was before my time, but I agree with just what you stated.

Mr. HENDERSON. But you did follow those up. You remember, as I recall, the memorandum of your conversation with Mr. Girdler was that [reading][1]:

If we were to cooperate with them—

meaning Republic—

in consolidating steel properties, it was only logical and fair for them to cooperate with us in managing ore properties.

In other words, that was in 1933, as I recall, and you were looking forward to Republic expanding and getting toward this stabilized level and your own organization expanding in the matter of ore properties.

Mr. GREENE. My reason for commenting to Mr. Girdler in that way was a little bit more selfish than that. Cleveland-Cliffs had acquired, and unwisely, a large interest in Corrigan-McKinney. For their size they had acquired a 62½-percent interest in a steel company. We were anxious to have that steel company, whose main product was semifinished, merchant bars—we were very anxious to get that into a bigger group, because we were not only financially embarrassed ourselves at that time, but that company required the expansion which would take a good many millions of dollars, so we were in the position of owning something that was sound, excellently located, would be a valuable addition to a steel company located in that district, but which, in our hands, was something that we wanted to convert into another form of investment.

We had acquired a short-time debt of $25,000,000 due to the purchase of that, and it was my job to try to get that funded and then to try to get it reduced.

At the present time that is largely accomplished so that I was trying to accomplish a definite thing with Mr. Girdler, which was to have him take over something I knew was good for him, and at the same time was a burden for us.

Mr. HENDERSON. But your group also wanted Otis brought into Republic.

Mr. GREENE. Well, we wanted—we thought that it was a good thing for Otis, but we did not want to bring the slightest pressure on them to do it. Let them decide that, because we were on boths sides of the fence, and felt we ought not to do more than express our opinion to them. At that time Mr. Mather, you remember, made a statement of what his opinion was, but said that was all he was going to do, express his opinion, and he and his associates withdrew from that directors' meeting, so they would not be there when the others reached that decision, and they decided not to do that.

Mr. HENDERSON. Let me ask you this, which follows logically, I think, from what you have said as to the effect of integration on competition and price. Do you feel that the present price of steel is kept higher than it would be by reason of the fact that there are numerous small competitors in the industry?

Mr. GREENE. Is kept higher, no. I don't.

Mr. HENDERSON. I thought you said if you had an integrated company, you would have a lower price.

[1] Referring to "Exhibit No. 1359," on file with the committee.

Mr. Greene. I think greater efficiency is generally brought about by large integrated companies, and I think greater efficiency brings about a lower price.

Mr. Henderson. That is about the same thing. Say the presence of a large number of small units, or the absence of a consolidated integrated company, whichever way you go, leads to the conclusion that the existing status is responsible for higher prices than would obtain with an integrated system.

Mr. Greene. As I said before, I am not qualified to answer technical questions, but let me recite just one or two companies, smaller ones, that I know something about.

The Trumbull plant bought their pig iron and had to reheat it. When they built this furnace, that molten metal, still called pig but it is molten metal, is carried right over to the mills and used there. That meant an immediate saving of one to two dollars in the cost of every ton in an ingot of steel. That is what I mean by economies of integration in larger units.

Mr. Henderson. Let me ask you: You have interests in several steel companies, some of them substantial. Do you think that the cost of making steel is higher in those companies than it is in Bethlehem and U. S.?

Mr. Greene. Well, I couldn't quote any costs. I have no way of knowing.

Mr. Henderson. But you have an impression that if you brought those six together there would be a reduction in price due to the advantage of integration.

Mr. Greene. I am not making any comparisons of specific steel companies. I am comparing two companies, one integrated and one not integrated, and I say the integrated company in my opinion would be more profitable than the other.

The Chairman. May I interrupt you, Mr. Commissioner, to ask this question? Mr. Greene, in the light of your experience and knowledge, both of the ore-producing industry and of financial structure of corporations, do you think it would be desirable now if it were possible to proceed with the organization of another large integrated steel company in the manner that you had planned in 1930, when these negotiations were in progress?

Mr. Greene. Senator O'Mahoney, I think there would be less argument for it. I think the principle holds good, but there is less argument for it on account of the great expansions and additions that have been made in the meantime.

The Chairman. By whom?

Mr. Greene. Oh, pretty nearly everybody.

They have all added to their plants to the extent of many millions. When I say all, I mean three-quarters of them have. There has been a very heavy investment in additional facilities in the steel business; I am quite sure, if you look at the statements of the companies you will find that their plant accounts have all increased.

The Chairman. But your independent concerns, the ones in which the Cliffs has its investment, are still operating successfully, are they not?

Mr. Greene. Yes; it doesn't mean that they can't be successful, it is just a question of——

The Chairman. That, I think, is what Commissioner Henderson was trying to develop, whether or not the integrated company is

likely to be more successful economically in the interests of everybody concerned, than the small independent concerns, the nonintegrated concerns. Now I was just curious to know what has transpired since this attempt was made, and abandoned, to make it undesirable to proceed and what are the circumstances that seem to make it possible for the independent companies to continue to operate successfully. They are economically sound?

Mr. GREENE. Economically sound, but I wouldn't say that the steel business has been profitable in the last 10 years.

Mr. FELLER. May I just clarify something here for a moment? Is it not a fact, Mr. Greene, that in 1930 all of these companies which appear here, Republic, Otis, Wheeling, Inland, Youngstown, were all integrated companies as that term is known in the steel industry?

Mr. GREENE. I am not competent to answer that.

The CHAIRMAN. Are they all integrated companies now?

Mr. GREENE. I wouldn't say they were completely integrated; no. I think——

The CHAIRMAN. But they are not nonintegrated companies?

Mr. AVILDSEN. Mr. Greene, what is your definition of an integrated company?

Mr. GREENE. You are getting over my head. I have stated I am not a steel man.

Mr. AVILDSEN. I don't see how we will get anywhere talking about something if we can't define it.

The CHAIRMAN. You said at the opening of this technical discussion that it was your conviction that 10 integrated companies would operate more successfully in the public interest than 100 nonintegrated companies?

Mr. GREENE. Yes, I said that.

The CHAIRMAN. Now, then, you had a definition in mind when you made that comparison. Just what did you mean by an integrated company?

Mr. GREENE. Mr. Feller asked me to compare specific companies, which require you to know just what products they are in. You see what I mean? And I am not able to do that, but what I am speaking of is a company that has blast furnaces and open hearths, and a reasonable degree of entry into the various kinds of products. Now when you get down to the question of the degree of integration, I am not competent to express any opinion.

Mr. FELLER. May I also ask you this, Mr. Greene? You were talking in terms of profitableness of operations. Is it not a fact that at least two of the companies which it was contemplated bringing into this large unit, the Mid-West Steel organization, at least two of them, Inland Steel—well, at least Inland Steel was one of the most profitable companies in the business?

Mr. GREENE. I think it has a very fine record.

Mr. FELLER. You think that the large aggregation which would have resulted if Mr. Eaton's plan had been carried through, would have been likely to be more successful than Inland?

Mr. GREENE. Well, I think that the success of the new company would have been more successful than the average of each of the component parts, the average.

Mr. HENDERSON. Mr. Chairman, I have one more question. Mr. Greene, I understood you to reply to the chairman that conditions having changed, the strong urge which your group had toward

consolidation may not exist today, but regardless of that you found yourselves, by reason of this exchange of stock, with holdings in several companies and particularly with Corrigan, and you did, following along the line of what you thought was sound policy, urge at times actions which would bring about a larger integration. I mean that you found yourselves in the position of having the stocks and since you did have them, you went toward the effective use of them of course, rather than merely drawing dividends on them. Would that not have produced in an integrated company that might have resulted, a different kind of competition from what exists today?

Mr. GREENE. I don't think I am competent to answer that question, but I would like to call attention that Corrigan, McKinney was owned by Cleveland-Cliffs, while the other stocks are held in Cliffs Corporation, but to answer your question——

Mr. HENDERSON (interposing). There was an identity of interests, was there not?

Mr. GREENE. Quite different; you see we had to dispose of one on account of the financial conditions, and the fact that it was a burden.

Mr. HENDERSON. Independent of that delicate distinction you want to make, which is all O. K. with me, the basic question is this, If what you had been led to believe was a proper thing, development of an integrated company had resulted, you would have had a different situation as far as competition is concerned, would you not?

Mr. GREENE. You mean the Cleveland-Cliffs?

Mr. HENDERSON. Suppose the Republic had been made the basic unit and the rest had been brought into it. You would have had a quite different situation, not only as regards competition between the units that went to make up Republic, but as between Republic and the rest of the industry, would you not?

Mr. GREENE. Well, I don't know as I quite understand.

Mr. HENDERSON. Well, you have said that probably it would have helped to stabilize the steel industry, and I understood you to testify that the presence or the absence of integrated companies did produce a different kind of competition.

Mr. GREENE. I don't recall saying that. I said I thought it would help to stabilize to have competition of, as I said, 10 integrated companies as compared to 100; I did state that.

Mr. HENDERSON. It would be different, would it not?

Mr. GREENE. I didn't say I thought it would be a different kind of competition. I think you would still have the keenest kind of competition if you had 10 companies.

Mr. BALLINGER. Mr. Greene, do you get competition when you get 10 big integrated companies?

Mr. GREENE. I think you do. I think you get the keenest kind of competition.

Mr. BALLINGER. Our experience down at the Commission is that when integration proceeds free and untrammeled and integration sets in so that the number of competitors is reduced in industry, all at once price competition ceases and then we hear arguments from businessmen that the industry must be stabilized, and then we run across confidential memorandums in the files of businessmen in which they say they can't afford competition any more; too big now; be very careful about competing; they don't want to wreck one another. Now you don't

want to make a statement to this committee that you think there is price competition in the steel industry today, do you?

Mr. GREENE. I am not familiar with it. I would say there is competition in the industry. That would be my personal view.

The CHAIRMAN. What do you mean by stabilization?

Mr. GREENE. Well, I mean that producing a profit and producing an article that will render a reasonable profit on invested capital, and at the same time permit of paying proper wages.

The CHAIRMAN. Now how does integration produce stabilization?

Mr. GREENE. Well, I was just speaking a minute ago of the case of Trumbull Steel saving in having a furnace which would save one to two dollars which it wouldn't have if it just had the mill without the raw product.

The CHAIRMAN. Well, that was a reduction of costs rather than stabilization, was it not?

Mr. GREENE. Well, stabilization permits of an economy in the production and means profit and generally speaking in industry, in my opinion reasonable profit produces best results.

The CHAIRMAN. Well, now, what would be the effect of integration upon the price paid by steel companies and received by ore companies for their products?

Mr. GREENE. Well the ore is no different from any raw material that goes into the finished article. I don't know that I understand the question.

The CHAIRMAN. Well, we are talking about integration and its effect upon stabilization. Now I am proceeding to what you mean by stabilization so far as the ore producer is concerned. Does that picture taking bother you?

Mr. GREENE. Yes. I am sorry I don't remember the question.

The CHAIRMAN. Well, I was asking what in your opinion would be the desirable effects of integration upon the stabilization of the ore-producing interests, and what do you mean by stabilization so far as it affects the producers of ore?

Mr. GREENE. Well, I think if it leads to prosperity in the steel business—if it leads to increased business in steel, why the ore people will automatically benefit by it.

The CHAIRMAN. Do you think that integration produces a better market for ore?

Mr. GREENE. Well, speaking of volume; yes.

The CHAIRMAN. I am speaking of volume, too, now.

Mr. GREENE. Well, I don't know about price.

The CHAIRMAN. Well, I won't anticipate that now. I think Mr. Feller will be going into that question.

Senator KING. Would this be a fair illustration of the steel business? I give it from my personal experience. When I was a very young chap we had a sawmill to produce lumber. We didn't have any timberlands, and we had to make contracts with persons who owned the timber to get the logs. We thought they charged too much. We didn't have the necessary oxen to haul the lumber from the mountains, and we had to pay too much, as we thought, in order to get the lumber hauled. Thereupon we acquired the timber ourselves and we bought oxen and hauled the lumber ourselves. We were thus

integrated and we made a little money, whereas when we had to depend on all the others we lost. Would that be a sort of illustration?

Mr. GREENE. I think it would.

Mr. FELLER. Mr. Greene, I should like to look very briefly——

Mr. HENDERSON (interposing). May I ask one more question, please, before we leave this? In this interchange between Mather and Oglebay, Norton, in which you had no part, stabilization, a better price and the like were mentioned in the telegram and letter referred to. I think Mr. Oglebay testified here yesterday that they had about $200,000 assets for which you people were willing to pay with stock having a value of over $1,000,000 for a 66-percent interest. Because of the pro rata share of the earnings of Oglebay, Norton, you felt this would be a wise investment. Did you have in mind that you could get a continuance of that kind of earnings or that you could increase them by the jointure?

Mr. GREENE. Well, I think the acquisition of Oglebay, Norton and the formation of Cliffs were both due almost entirely to the assumption that that midwestern steel company would be formed. That was the real——

Mr. HENDERSON (interposing). It would help to stabilize price?

Mr. GREENE. No; I think it was not that, but the real reason in my opinion, the unconscious reason here, was the fact that it would permit of the properties managed by Oglebay, Norton on their part to have the opportunity, if they chose, to come into the new company as part of their reserve and as Mr. Oglebay testified——

Mr. HENDERSON (interposing). You think we could safely disregard the reference to the stabilization of price?

Mr. GREENE. I think that when we look back at it now we forget the atmosphere that existed then, but what they were thinking about then was the reason I am giving you, and Mr. Oglebay——

Mr. HENDERSON (interposing). It might be "business literature" as a witness testified last week? The president of an insurance company testified that there were occasional things in communications which he termed "business literature" and really were not to be taken at their face value. [1] Is that what you mean?

Mr. GREENE. No; I mean this, I think Mr. Oglebay expressed it very well when he said he wanted the opportunity of sitting around the table and discussing the affairs and relations of the iron ore to the new company. I think that was what attracted them.

Mr. HENDERSON. That means disregard the emphasis on stability of price?

Mr. GREENE. I think so.

Mr. FELLER. Mr. Greene, I would like to look for a moment very briefly at your contractual relationships with one or two of the steel companies which appear on the chart entitled "Financial Connections." In the case of the Republic Steel Corporation, you had a long-term contract to supply the Republic Steel Corporation with ore?

Mr. GREENE. We have.

Mr. FELLER. And you supply Republic with a substantial portion of their ore requirements?

Mr. GREENE. We do.

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[1] Included in Hearings, Part 13.

Mr. FELLER. You also have a long-term contract with the Otis Steel Co?

Mr. GREENE. Yes, we have; still running.

Mr. FELLER. And you supply them with a very large proportion of their ore?

Mr. GEEENE. Yes; all but what they own themselves, which is small.

Mr. FELLER. You do not, as I understand it, have such long-term contracts with Wheeling, Inland, or Youngstown; is that correct?

Mr. GREENE. We have a long-time contract with Wheeling.

Mr. FELLER. You have one with Wheeling, but you do not have one with Inland and with Youngstown?

Mr. GREENE. To Inland we lease a property, etc. and they operate it under what you might call a long-time contract.

Senator KING. Does Wheeling have any ore at all?

Mr. GREENE. Yes; they have interests in ores.

Senator KING. In other words, you don't furnish them all the ore, then, which they use?

Mr. GREENE. Oh, no; they must get it from a number of sources.

Senator KING. There is competition in the acquisition of ores?

Mr. GREENE. Keen competition.

Senator KING. Would that be true of the Otis?

Mr. GREENE. Yes; keen competition.

Senator KING. And the Republic?

Mr. GREENE. Very keen competition.

Senator KING. And the Inland?

Mr. GREENE. We don't sell them; we lease them a property that they desired to operate, which belonged to us.

Senator KING. And they operate that themselves?

Mr. GREENE. Yes.

Senator KING. Excuse me, Mr. Feller.

Mr. FELLER. Mr. Chairman, that is all I have to ask Mr. Greene at this time. I should like to have him stand aside.

Mr. GREENE. Mr. Chairman, may I make one correction? I made the statement yesterday that we were the largest stockholder of Republic. I am reliably informed that that is not the case; that there is a stockholder larger than we are, and that our total holding in that company, according to our records, is 7.8 percent, which I think agrees exactly——

Mr. FELLER (interposing). Do you happen to know who the largest stockholder is?

Mr. GREENE. I couldn't give you the name.

Mr. FELLER. Would this refresh your recollection? As I understand it, it is a Dutch group?

Mr. GREENE. I think it is; and I want to make a further correction that I stated we were the largest stockholder of Wheeling. I want to just amplify that by stating that there are stockholders owning preferred stock, which as you know is far more valuable than ours, that are larger than ours, so that while we may be the largest common-stock holder, it is only a matter of thirty-odd-thousand shares out of some 577,000; that they have in addition 381,000 shares of preferred, and our total holding there is only 3.7 percent.

Senator KING. In which fields does your company, which mines and sells ores, operate? Principally in Michigan or Minnesota?

Mr. Greene. We are almost entirely on the Marquette range; we have 11 mines there and we operate one on the Menominee and one on the Mesabi in which we are interested, and one which we just manage.

Senator King. Do you know approximately the number of tons of ore consumed by the companies that are producing steel in the district in which you have been operating?

Mr. Feller. Senator King, the bar chart which appears there, and which you perhaps have before you, and the accompanying table,[1] will show that in 1937 there were 63,000,000 tons of ore.

Senator King. I wanted to get that in the record. Now the next question is what proportion of the ore that is consumed does your company mine and sell?

Mr. Greene. In what year, Mr. King?

Senator King. During the past 2 or 3 years.

Mr. Greene. I have those figures.

Mr. Feller. The record shows that in 1937 the shipments amounted to 9.1 percent.

Senator King. That is all.

The Chairman. Mr. O'Connell, did you want to ask any questions? Congressman Williams? Mr. Avildsen? Mr. Reynders? May I ask you just one question before you go and one or two perhaps that may develop? Your response to a question asked by Senator King was, as I understood it, that there is keen competition among these various steel companies in which the Cleveland-Cliffs and the Cliffs companies, respectively, own a large share of stock?

Keen competition between the steel companies in which you are interested?

Mr. Greene. I would feel quite certain there is.

The Chairman. In other words, that competition among the Wheeling Steel, Republic Steel, Youngstown, and Inland is very keen?

Mr. Greene. Very keen.

The Chairman. And there is no effort upon the part of the joint stock ownership to control or prevent that competition?

Mr. Greene. None whatever. I can illustrate that by saying that occasionally we have occasion to buy steel ourselves for our use in the mines, and so forth, and I want to tell you that the criticism we get because we can only give it to one company is so immediate and so very critical that I know there is keen competition.

The Chairman. And you want us to understand that the directors of the Cleveland-Cliffs Iron Co. make no effort to ameliorate that competition among these companies in which it has a stock interest.

Mr. Greene. They make no such effort.

The Chairman. And the same is true of the Cliffs Co.

Mr. Greene. The same is true.

The Chairman. Then is it your advice to this committee, as a person of prominence in industry, that the competitive system should be maintained?

Mr. Greene. I certainly think it should.

The Chairman. Do you think it would be inadvisable for Congress, by law in any way to weaken the competitive system?

Mr. Greene. Well, I think the freedom of business from regulation is very important, very desirable.

[1] "Exhibit No. 1352," appendix, p. 10426.

The CHAIRMAN. Well, that isn't exactly the question I asked. I say, is it your opinion that Congress should not pass any legislation which would tend to weaken the competitive system?

Mr. GREENE. I don't know what kind of legislation you refer to, Senator.

The CHAIRMAN. I am not referring to anything in particular, but we all know that there is an argument going on all through the country among persons who are thinking about this thing as to the desirability of competition. Some people have advanced the idea that we have passed beyond the competitive stage, and that permission ought to be granted to industrial executives to at least ameliorate competition, particularly with respect to prices.

Mr. GREENE. Well, I am only expressing my personal views.

The CHAIRMAN. Yes, certainly.

Mr. GREENE. I feel very strongly that a Government-controlled economy is a very bad thing.

The CHAIRMAN. There again you don't answer my question. There are other ways of controlling an economy besides Government action. There are some hints that there have been efforts upon the part of private institutions to control economy, too, so that my question is, Do you think that the competitive system ought to be maintained?

Mr. GREENE. I do.

The CHAIRMAN. Regardless. And it ought to be protected from attack, from whatever source that attack comes, whether it is from private sources or Government sources.

Mr. GREENE. I believe thoroughly in the competitive system of business.

The CHAIRMAN. Then do you believe in the thorough enforcement of the antitrust laws?

Mr. GREENE. I think I would have to be familiar with all the details of the law. I am thoroughly in favor of competitive business conditions.

The CHAIRMAN. Well, you are thoroughly familiar with details of the Sherman antitrust law and the Clayton Act and the Federal Trade Commission Act.

Mr. GREENE. Not as a lawyer, I am not familiar with it.

The CHAIRMAN. As the ordinary person.

It is your opinion and your advice to this committee that the antitrust laws ought to be maintained and be made effective.

Mr. GREENE. I would say so.

The CHAIRMAN. I just wanted to get your point of view with respect to it because it is a matter of great importance.

Senator KING. Do you believe competition is better than regimentation?

Mr. GREENE. Yes, sir.

Senator KING. And you believe the competitive system, while it may leave some wrecks behind it in the weaker, by and large competition will solve better than any other plan the economic and industrial problems that we have to meet.

Mr. GREENE. I do.

Senator KING. Would you say from the experience which you have had that there is competition in the steel industry?

Mr. GREENE. I would say there is very keen competition.

Senator KING. You stated that there is competition in the selling of ores, and you only sell, as I understand it, 9.1 percent of the ores in the area to which counsel have referred.

Mr. GREENE. I want to correct that. We don't sell 9.1 percent. That is the shipments, and those shipments are made up of three items—our own ores, the ores that are mined from properties we lease, and what we mine from partners. Am I correct, Mr. Feller?

Mr. FELLER. That is right.

Mr. GREENE. So that probably the amount that we sold in that one, which is maybe the second biggest year in the industry, was about 6 percent, or only about two-thirds of the 9.1. The 9.1 includes ore that actually belongs to six or eight different steel companies. It is their ore.

Senator KING. Was their competition among the purchasers of ores and the owners of property with respect to the acquisition of ores?

Mr. GREENE. Keen competition.

Senator KING. You had competition?

Mr. GREENE. Absolutely.

Senator KING. Did you have to compete to sell the 6 percent to which you have referred?

Mr. GREENE. Yes, sir. You have to work from Monday morning till Saturday noon.

Senator KING. Some of the steel companies, I presume, from your testimony, own their own ore deposits?

Mr. GREENE. Oh, they own maybe—I think the figures that were given here by Mr. Hoyt showed that the steel companies own about five-sixths of the ore.

Senator KING. If the prices which you and others who are mining ore for sale to sellers were too high, were higher than the steel companies believed warranted, would they mine their own ores? ,

Mr. GREENE. Certainly they would.

Senator KING. What proportion of the ores consumed by them are mined by these companies named upon the chart here?

Mr. GREENE. Well, now, do you mean mined by them, or do you mean shipped? This chart here is the shipment of ores.[1]

Senator KING. I am speaking of mining.

Mr. GREENE. I can only give you, as I state, our figures. Our figures are that out of the 9 percent, we sold about two-thirds of it, and the other third is divided between mines we lease and mines we manage for steel company ownership. About 3 percent of it was due to those two causes.

Senator KING. The other 91 percent of the ores which are consumed, by whom are those ores mined?

Mr. GREENE. Well, five-sixths of them belong to the steel companies, and one-sixth of them belong to the other merchant dealers in ore.

Senator KING. So that in selling the ores which you mine and which you handle, that is the 6 percent, you are in competition with the mine owners who own five-sixths of the ore deposits and mine the same.

Mr. GREENE. That is correct. If we go over a period of 30 years, our shipments all together are 6.4, and I think our own interest over 30 years is a trifle under 5 percent.

[1] Exhibit No. 1351, appendix, p. 10425.

Senator KING. Then you have to compete in the selling of your 6 percent with the mine owners who own five-sixths of the ores themselves.

Mr. GREENE. We compete with the other merchant sellers.

Senator KING. And all of you, of course, compete with the mine owners. That is to say, they have the deposits, and if your prices are too high, presumably they would mine them themselves, and they do mine some, as I understood you.

Mr. GREENE. You are competing with those steel companies that have ore reserves in excess of their needs, plus the merchant sellers. There are notable cases of companies whose reserves exceed their needs.

Mr. HENDERSON. Taking this 6 percent, if you isolate Oliver which does not sell in competition with merchants, you have about 10 percent of the free market. Oliver takes about 42 percent of production, to be compared with your 6 percent.

Mr. GREENE. On the assumption that they have, that would be about right.

Mr. HENDERSON. One other question. You mentioned the example of when you buy steel—do you get bids on that, when you buy steel for the iron company?

Mr. GREENE. I am quite sure we check the prices.

Mr. HENDERSON. Are they all alike?

Mr. GREENE. No. I am not personally familiar with that. We have a buying department, and they go into it very thoroughly. We have a competent man that does that.

Mr. HENDERSON. You mean the basing point price is not followed.

Mr. GREENE. I couldn't tell you that.

Mr. HENDERSON. If you can't tell me, I will abandon that line of examination.

Mr. FELLER. May I say, Mr. Chairman, that there will be a great deal of testimony in this hearing with respect to steel prices and this afternoon we hope to begin taking testimony with respect to that.

The CHAIRMAN. In other words, questions from the committee with respect to price structures are a little bit premature.

Mr. Greene, you may stand aside.

Call the next witness, please.

Mr. FELLER. Mr. George Humphrey, please.

The CHAIRMAN. Do you solemnly swear the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HUMPHREY. I do.

TESTIMONY OF GEORGE M. HUMPHREY, PRESIDENT, M. A. HANNA CO., CLEVELAND, OHIO

Mr. FELLER. Will you give the reporter your full name and the company with which you are connected, and your position with that company?

Mr. HUMPHREY. George M. Humphrey, president of the M. A. Hanna Co., Cleveland.

Mr. FELLER. You are also a director and chairman of the executive committee of the National Steel Corporation?

Mr. HUMPHREY. I am.

Mr. FELLER. Could you tell us something very, very briefly, of the history of the M. A. Hanna Co.?

Mr. HUMPHREY. The M. A. Hanna Co. was a partnership formed in the late sixties and has carried on in the iron ore, coal, and investment business ever since that time.

FORMATION OF THE NATIONAL STEEL CORPORATION

Mr. FELLER. When was the National Steel Co. formed?

Mr. HUMPHREY. 1929.

Mr. FELLER. At that time, in 1929, is it correct to say that M. A. Hanna Co. was engaged in owning and operating iron-ore mines?

Mr. HUMPHREY. At that time M. A. Hanna Co. owned merchant blast furnaces, made and sold merchant pig iron, and owned ore mines.

Mr. FELLER. You also at that time owned a fleet of boats operating on the Great Lakes?

Mr. HUMPHREY. That is right.

Mr. FELLER. At the present time what are your approximate assets?

(Senator King assumed the Chair.)

Mr. HUMPHREY. I think about sixty million.

Mr. FELLER. Could you tell us what your functions are today in contradistinction to your functions in 1929?

Mr. HUMPHREY. Well, in 1929, when National Steel Co. was formed, our assets that related to the iron ore and pig iron business were turned over to National Steel, and we took stock for those assets, in National Steel. We became the raw material department of the National Steel Co., and National Steel engaged the Hanna Co. to operate and handle their raw material properties.

Mr. FELLER. You act, with respect to National Steel, very much as Oliver acts with respect to U. S. Steel?

Mr. HUMPHREY. I don't know just how Oliver acts. We operate, as far as National Steel is concerned—the ore mines and the vessels for them.

Mr. FELLER. National Steel owns no stock in M. A. Hanna?

Mr. HUMPHREY. It does not.

Mr. FELLER. But M. A. Hanna owns quite a substantial block of stock in National Steel?

Mr. HUMPHREY. That is correct.

Mr. FELLER. You are the largest stockholder?

Mr. HUMPHREY. I believe so.

Acting Chairman KING. You got that stock from the sale of assets of the Hanna Co.?

Mr. HUMPHREY. That is correct, Senator, and we have held it ever since.

Mr. FELLER. To clarify this matter just a bit, could you tell us something of the formation of National Steel, what units went into it?

Mr. HUMPHREY. Well, in 1929 we had a merchant pig-iron business and we had more ore than we used in our own furnaces, and sold ore to other customers. We had a pig-iron business in Detroit. George Fink had a sheet-steel business in Detroit, and we decided that would be a wise thing to build a steel plant in Detroit which would take our pig iron and supply the steel for Mr. Fink's sheets.

Mr. Feller. You were also interested in Mr. Fink's business in Detroit?

Mr. Humphrey. We were, and we together formed the Great Lakes Steel Co., which was the connecting link between our pig iron, our iron ore, and his finished sheets.

Mr. Feller. And there were at that time, in 1929, three companies, the Great Lakes Steel Corporation in Detroit, in which you and Mr. Fink were interested, the M. A. Hanna Co., operating iron ore mines, and blast furnaces, and thirdly the Weirton Steel Co.?

Mr. Humphrey. Weirton Steel Co. was one of our largest customers for iron ore. We supplied them with iron.

Mr. Feller. Was Mr. Weir the head of the Weirton Steel Co. at that time?

Mr. Humphrey. He was.

Mr. Feller. And the merger brought about National Steel, and consolidated these three interests, Great Lakes Steel, the iron ore properties and blast furnaces of M. A. Hanna, and the properties of the Weirton Steel Co.?

Mr. Humphrey. Each of those units, you see, was supplementary to the other unit, and we found that by putting those supplementary units together in a single company we would have a stronger, better company group than we had as independents.

Acting Chairman King. Did the identity of those two companies, when the consolidation took place, cease?

Mr. Humphrey. No; the identity is maintained.

Mr. Feller. Could you tell us the approximate market value of your investment in National Steel?

Mr. Humphrey. Today?

Mr. Feller. Yes.

Mr. Humphrey. I don't know that I could.

Mr. Feller. Would it be in excess of 45 millions?

Mr. Humphrey. I don't know. You can figure it out; there are approximately 600,000 shares. I don't pay any attention to the market.

Acting Chairman King. Has the Hanna Co. any assets whatever except the 600,000 shares of stock to which you have referred?

Mr. Humphrey. Oh, yes; we have other business. We have a larger volume in the coal business than we have in the iron-ore business. We are engaged in other lines of activity besides.

Mr. Feller. You also manage some mines which are owned by yourself and some mines which are owned by steel companies other than National Steel?

Mr. Humphrey. Only mines in which the National Steel has interest. There are some mines in which National Steel has interest with others.

Mr. Feller. And do you also act as National's exclusive sales agent for all the ore produced above the requirements of National Steel?

Mr. Humphrey. We do.

Mr. Feller. Mr. Humphrey, I should like to show you an exchange of correspondence which appears to be between you and Mr. Ernest Weir. Who is Mr. Weir?

Mr. Humphrey. Mr. Weir is the chairman of National Steel.

Mr. FELLER. These documents were taken from your file. Will you please identify them? They have your initials typed on the bottom. One of them is addressed to you. They are from your files?

Mr. HUMPHREY. Yes; I recognize them.

THE ROWE MINE

Mr. FELLER. Mr. Humphrey, these three letters deal with a mine called the Rowe mine. They are dated, respectively, August 14, 1930, November 5, 1930, and November 7, 1930. Do you have any recollection of the transactions involving the Rowe mine at that period?

Mr. HUMPHREY. Yes; I do.

Mr. FELLER. Could you tell us something about it?

Mr. HUMPHREY. The Rowe mine is a very low grade property. It has a fairly substantial tonnage of somewhat questionable ore that has to be beneficiated and requires a substantial plant development and a good deal of experimentation to know whether or not it can ever be made merchantable.

We own—we have bought—something more than half of the fee which we own that we regard as a possibility for ore many years hence.

Acting Chairman KING. The ore is refractory?

Mr. HUMPHREY. It is all mixed up with chert and rock, and it has to be separated from the rock to be of any use whatever.

Acting Chairman KING. Is it in Michigan?

Mr. HUMPHREY. It is in Minnesota. It is a very difficult thing to do.

Mr. FELLER. Merely for the record, Mr. Humphrey, one of these letters says you owned a six-sixteenths interest.

Mr. HUMPHREY. I should think that would be about it.

Mr. FELLER. Do you recall an offer made by Butler Bros. Mining Co., with offices in St. Paul, to operate the mine?

Mr. HUMPHREY. Well, Butler Bros. never talked to us on the subject. There was another man in Duluth who came to us and said that he thought Butler Bros. might be interested to develop that property if we would be interested to lease our part portion of it.

Mr. FELLER. May I read you a paragraph from the letter dated November 5, 1930, written by you to Mr. Weir: [1]

> Mr. Crosby, of Duluth, came down to see us yesterday to try to induce us to join with him and other fee owners in making a lease of the property in which we own a six-sixteenths interest, and he and his associates own the balance adjoining the Rowe mine. They have agreed with Butler Brothers on a 45-cent royalty compared with 20 cents to 25 cents which were offered them, and very high minimals as compared to our offer of very nominal minimals for the next ten or fifteen years.

Is it correct to say that at that time you understood that Butler Bros. had come to some sort of agreement?

Mr. HUMPHREY. That letter says that Mr. Crosby told us that, and I have no doubt that that is correct.

Mr. FELLER. What was your attitude with respect to the operation of this mine by Butler Bros.?

Mr. HUMPHREY. I didn't want to see it opened. I thought it was very inopportune to open that property, that that property shouldn't be opened for 20 years.

[1] Not introduced for the record.

Mr. FELLER. Could you tell us why?

Mr. HUMPHREY. Because of the character of the ore and the difficulties of doing it. It is a very difficult thing to do, and I think very foolish to open that sort of property at this time.

Mr. FELLER. You thought, in other words, that Butler Bros., if they were to open that mine, would probably lose money?

Mr. HUMPHREY. I didn't know whether they would or not. I don't know myself of any way of operating the property now.

(Senator O'Mahoney resumed the Chair.)

Mr. FELLER. I should like to read you a letter dated November 7, 1930,[1] addressed to you and signed "Ernest." "Ernest" would be Mr. Ernest T. Weir?

Mr. HUMPHREY. That is right.

Mr. FELLER. The letter reads as follows (reading):

> I have read with interest your letter of the 5th relating to the possible activity of Butler Brothers on the Cuyuna—

The Cuyuna is the range on which this mine is located?

Mr. HUMPHREY. That's it.

Mr. FELLER (reading):

> Certainly hope you can persuade them to withhold development, because I am afraid there will be too much ore over the next year and possibly two, and once they develop they will want to sell it.
>
> Another reason why they should not want to do anything to crowd the market is that it would certainly affect the price of the ore they are now producing.

Mr. HUMPHREY. If you will read, Mr. Feller, the other letter, you will see my reasons for not wanting to do it.

Mr. FELLER. I think that should be read. The letter of November 5,[1] which Mr. Humphrey wrote to Mr. Weir, reads, in part, as follows (reading):

> We explained to Mr. Crosby that this was a most inopportune time to open another property, that we not only wanted to reserve our own ore for years to come, but we did not want any operation to raise our taxes on our adjoining land so as to force us to open them in the near future, that if we did so, we might have to cancel some of our other properties which we hold from him, which would be a very serious matter for him, and urged him to go back to Butler Brothers and get them to postpone any activity for at least five years, stating that we would work with them if they were short of ore in the meantime to take care of their requirements on some of the property which we now have operating on some fair exchange basis, to be paid back later.

Mr. HUMPHREY. You see, this is an unmerchantable property, and it would be very bad to start.

Mr. FELLER. As I understand from this correspondence, and check me up on this, you told Mr. Crosby first that this would be a most inopportune time to open another property; secondly, that you did not want any operation to raise your taxes on adjoining land. Isn't that a fair statement?

Mr. HUMPHREY. That is correct. The rule of taxation in Minnesota is that unmerchantable idle property takes one rate of taxation, and merchantable property takes another.

Mr. FELLER. There is nothing in this letter which gives as a reason the fact that the ore was of low grade and could not profitably or properly be operated.

[1] Not introduced for the record.

Mr. HUMPHREY. Mr. Weir knew that just as well as I did. Everybody knows that.

Mr. FELLER. In other words, this letter doesn't tell the whole story.

Mr. HUMPHREY. He knows it. He knows just as much about the property as I do.

Mr. HENDERSON. May I ask a question there? When you say unmerchantable, what does that mean?

Mr. HUMPHREY. It means that the iron content of this ore in the ground is very low, and it is mixed up with rock and dirt, and to make it of a grade that you can ship to use in a blast furnace, you have to go through an elaborate mechanical process that will separate that rock and dirt from the iron ore so as to raise the iron content sufficiently to make it worth while to ship.

Mr. HENDERSON. And it is your opinion that this is unmerchantable?

Mr. HUMPHREY. It is definitely.

Mr. HENDERSON. Does Butler Bros. consider it unmerchantable?

Mr. HUMPHREY. I think so. Their only hope would be that they could build a plant and devise some means of separating it to make a merchantable product out of it. We, as I say, know of no way of doing that. They perhaps did. I don't know.

Mr. HENDERSON. Are they fairly well experienced in the business?

Mr. HUMPHREY. Oh, yes; they are good operators.

Mr. HENDERSON. So this question of whether it is unmerchantable or not is a difference of opinion between your company and Butler Bros.

Mr. HUMPHREY. There is no question about the unmerchantability of the ore. It is an unmerchantable ore. The only question of opinion would be whether they could devise some means of treating it so as to make it merchantable, and we weren't smart enough to devise any. They were discussing it.

Mr. FELLER. May I say some of the partners of Butler Bros. will be on the stand shortly.[1] The question might be addressed to them.

Senator KING. They haven't developed it, have they?

Mr. HUMPHREY. No, sir.

Senator KING. Or found anybody to develop it.

Mr. HUMPHREY. No, sir.

Senator KING. There was an abundance of ore then on the market with a higher iron content than this.

Mr. HUMPHREY. That is correct.

Mr. FELLER. In view of the fact that it is very questionable as to whether this ore was merchantable, could you explain Mr. Weir's statement in the letter to you that he is afraid that once they develop, they will want to sell it, and they should not want to do anything to crowd the market, since it would certainly affect the price of the ore they are now producing.

Mr. HUMPHREY. If they went in there and invested what they would have to invest, which would probably be several million dollars, they would have to go ahead and operate. You can't go into a property and open it, even though it is a mistake, and spend all that money, and not have to go ahead and try to get it back, and this was not a good time to do anything of that kind.

[1] P. 10290 et seq., infra.

Mr. FELLER. Mr. Weir's company is primarily interested in the matter of ore as a purchaser, is it not, as a consumer of ore?

Mr. HUMPHREY. National Steel consumes ore. It produces all of its own ore, and sells some.

Mr. FELLER. Can you explain to us why Mr. Weir should be concerned that the price of ore might go down in consequence of the operation of the Rowe mine?

Mr. HUMPHREY. National Steel Co. is a large owner of ore and is desirous of getting as much for its ore as it can.

Mr. FELLER. That is all, Mr. Humphrey.

The CHAIRMAN. Are there any questions to be asked of Mr. Humphrey by members of the committee?

Senator KING. At that time, as I understood you, there was an abundance of ore from various companies available for blast furnaces and for the steel industry.

Mr. HUMPHREY. And of very much better quality than this.

Senator KING. Could it be mined much cheaper?

Mr. HUMPHREY. Yes, sir.

Senator KING. I suppose iron ore is very much like copper ores and others, where you have a variety of geological formations, so that the ore veins have been shaken up and a lot of detritus and materials are thrown into the entire mass, so that to separate and get the wheat from the chaff is an almost impossible task, or at least one that involves large expense.

Mr. HUMPHREY. And it is very difficult, very expensive to do it.

Mr. O'CONNELL. I understand the proposal was that Butler Bros. would invest their money and attempt to develop this low-grade ore.

Mr. HUMPHREY. That was the suggestion that was brought to us, and we did not care to participate.

Mr. O'CONNELL. You wouldn't have had to participate.

Mr. HUMPHREY. Yes; they wanted to take our property, and we said we were not interested to go along with them.

Mr. O'CONNELL. Would you have participated in the operation in a financial way, had Butler Bros.' plan gone through?

Mr. HUMPHREY. We would have leased them our property, and they would have had to pay us, and we didn't care to take that chance.

Mr. O'CONNELL. You didn't care to let them risk their money?

Mr. HUMPHREY. It was their money and our money, both. We didn't care to have this property opened and have it become on the active list, an active operation, so it would be a burden to us, with Butler Bros. obligated to pay us royalty. If it came back to us it would be a burden to us, and it would have come back to us if they couldn't have made this arrangement pay.

Mr. O'CONNELL. It would have come back to you in no worse condition than it left you.

Mr. HUMPHREY. I don't know.

The CHAIRMAN. It would have come back to you taxable at the higher rate, and not the lower.

Mr. HUMPHREY. And partially opened, and nobody knows in what condition.

Mr. HENDERSON. The reason Mr. Weir urged on you was that if that ore came on the market, it would tend to disrupt the price at which ore was sold.

Mr. HUMPHREY. It would be that much additional ore, and probably be a poor grade.

Mr. HENDERSON. Well, if it were a poor grade, would it affect the price of your higher-grade ore?

Mr. HUMPHREY. You can judge that as well as I.

Mr. HENDERSON. I cannot, Mr. Humphrey, because I am not an ore man.

Mr. HUMPHREY. I was going to give you the figures, Mr. Henderson. You misunderstood. This property would probably produce from two hundred fifty to three hundred thousand tons a year in a year that would—you know what our figures run, somewhere from thirty to sixty five million tons. To that extent it would have had an effect on price.

Senator KING. Suppose the operation had proven a failure and obligations had been incurred buying machinery and developing mechanical processes for the separation of the ore, the property might have been subjected to lien and you, being the owner of the property, would have had litigation to protect your interests.

Mr. HUMPHREY. That is right; we would.

The CHAIRMAN. Thank you, Mr. Humphrey.

(The witness, Mr. Humphrey, was excused.)

Mr. FELLER. I should now like to call, Mr. Chairman, Mr. Emmett Butler.

TESTIMONY OF EMMETT BUTLER, PRESIDENT, BUTLER BROS., ST. PAUL, MINN.

The CHAIRMAN. Do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. EMMETT BUTLER. I do.

Mr. FELLER. Will you give the reporter your full name and the company with which you are connected?

Mr. EMMETT BUTLER. Emmett Butler, president of Butler Bros.

Mr. FELLER. What is Butler Bros.?

Mr. EMMETT BUTLER. Butler Bros. is a mining company.

Mr. FELLER. And your offices are located in Minneapolis?

Mr. EMMETT BUTLER. St. Paul.

Mr. FELLER. St. Paul, I am sorry. That is a very bad slip. Could you tell us just a little bit about the history of your company, Mr. Butler?

Mr. EMMETT BUTLER. We originated as general contractors, building work, finally as contractors for the removal of overburden in the mining of iron ore, for mining companies, and then took mining leases and mined and sold the ore that was produced from the mines.

Mr. FELLER. Do you have any financial connections with any steel company?

Mr. EMMETT BUTLER. We do not.

Mr. FELLER. You own no stock in any steel company?

Mr. EMMETT BUTLER. I may own some personally, a few shares.

Mr. FELLER. Your company owns none?

Mr. EMMETT BUTLER. None.

Mr. FELLER. In your opinion, if you owned substantial blocks of stocks in steel companies, would it make it easier for you to sell your ore to those steel companies?

Mr. EMMETT BUTLER. I don't know.

Mr. FELLER. Do you have any difficulty in getting contracts with steel companies for the sale of ore?

Mr. EMMETT BUTLER. Well, we don't have any more difficulty, I don't think, than is general to sell a product. We have difficulty, we are not able to sell our entire capacity output at times. Sometimes we do.

Mr. FELLER. Mr. Butler, with which company do you have your most important contracts for the sale of ore?

Mr. EMMETT BUTLER. Well, that is a little hard to say. There are two or three important outlets for our ore.

Mr. FELLER. You have a long-term contract for the sale of ore to Pickands, Mather & Co.?

Mr. EMMETT BUTLER. Pickands, Mather & Co. acts more or less as our ore agent, I would say, to different companies.

Mr. FELLER. About what proportion of your output is sold to Pickands, Mather?

Mr. EMMETT BUTLER. Roughly a third, I should say.

Mr. FELLER. According to the figures which you submitted to us, in 1937 the proportion of sales made to Pickands, Mather was about 50 percent.

Mr. EMMETT BUTLER. They may vary from year to year.

Mr. FELLER. They may vary from year to year.

Senator KING. Pickands, Mather & Co. buy and sell ore, do they not?

Mr. EMMETT BUTLER. Yes; I would say so.

Mr. FELLER. Mr. Chairman, I should like also to call Mr. Patrick Butler at this time.

TESTIMONY OF PATRICK BUTLER, BUTLER BROS., ST. PAUL, MINN.

The CHAIRMAN. Do you solemnly swear that the testimony you are about to give shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. PATRICK BUTLER. I do.

Mr. FELLER. Mr. Patrick Butler, will you give your full name?

Mr. PATRICK BUTLER. My name is Patrick Butler.

Mr. FELLER. And you are connected with Butler Bros.?

Mr. PATRICK BUTLER. I am an executive of Butler Bros. I am the son of Emmett Butler.

PICKANDS, MATHER-BUTLER BROS. ORE CONTRACT

Mr. FELLER. Mr. Emmett Butler, the contract that you have with Pickands, Mather & Co. provides, does it not, that the Pickands, Mather Co. has the exclusive right and option to purchase in each and any year, any surplus tonnage which Butler Bros. may have available and can ship from said property or any of them, over and above the tonnages therefor covered by the outside contracts hereinbefore mentioned. Is that correct?

Mr. EMMETT BUTLER. With the property, certain subscribed preferences. That is correct.

Mr. FELLER. In other words, Pickands, Mather & Co. has an option to purchase your surplus tonnage above the contracts which you had at that time for the sale of certain properties?

Mr. EMMETT BUTLER. That is correct.

Mr. FELLER. Mr. Patrick Butler, when your company entered into this contract with Pickands, Mather & Co. did you have any opinion as to why Pickands, Mather & Co. took this option to purchase your surplus tonnage?

Mr. PATRICK BUTLER. Why I gather that it was to insure themselves; it was additional reserve of iron ore.

Mr. FELLER. May I show you this letter? This letter is to Mr. Emmett Butler, signed by you, and dated September 4, 1928, taken from your files. Do you identify it?

Mr. PATRICK BUTLER. Yes.

Mr. FELLER. I offer this for the record.

(The letter referred to was marked "Exhibit No. 1362" and is included in the appendix on p. 10435.)

The CHAIRMAN. It will be received.

Mr. FELLER. I will read the first two paragraphs of this letter. [Reading:]

> I talked with Hoyt this afternoon relative to our counterproposal.
>
> The minimums and maximums as you suggested are agreeable to him. However, he wants first call on any additional tonnage our present properties might show up. This is to keep us out of the market as much as possible. This first call means that should we feel we ought to produce more, or that we are in a position to take on additional contracts, that we should offer the ore to them before we do so to anyone else.

Will you explain what you meant by this sentence: "This is to keep us out of the market as much as possible."

Mr. PATRICK BUTLER. That, of course, was a surmise on my part. Although the letter says it was not, it must be surmise. I can't testify as to what their intentions were in calling for optional tonnage. It may have been a collateral advantage to them in making the deal with us. It may have been, as I say, that it would tend to keep us out of the market.

Mr. FELLER. If your company were free to sell this surplus tonnage to any purchaser and if you offered it at a price below the market price, then under this contract Pickands, Mather & Co. could exercise its option and control that part of the ore which you were willing to sell below the market price?

Mr. PATRICK BUTLER. If we felt as though we wanted to sell additional ore from the surplus ore, so to speak, at a price, at any price, we would have to give Pickands, Mather & Co. a refusal at the price we were willing to sell. It is definitely so stated in the contract.

Mr. FELLER. Doesn't it follow, then, that Pickands, Mather & Co. has the power under this contract to prevent you from selling below the market price with respect, that is to say, to ore which is additional to that now in the contract?

Mr. PATRICK BUTLER. Definitely not.

Mr. FELLER. If they wanted to they could take the ore off your hands and you couldn't sell it to someone else at a lower price, is that correct?

Mr. PATRICK BUTLER. They could buy the ore from us at the price we were willing to sell it. Naturally we wouldn't have the ore to sell.

Mr. FELLER. Can you explain the basis of your surmise that "this is to keep us out of the market as much as possible." How would it help Pickands, Mather & Co. to keep you out of the market as much as possible?

Mr. PATRICK BUTLER. They would only be helped as other iron ore merchants would be helped in that there would be less ore offered on the market.

Mr. FELLER. And you thought it would be to their interest to have less ore offered on the market?

Mr. PATRICK BUTLER. I would think so; yes.

Mr. FELLER. Was that the basis of your surmise?

Mr. PATRICK BUTLER. I think it was; yes.

Mr. FELLER. Just to clear up the matter with respect to which Mr. Humphrey testified a few minutes ago, Mr. Emmett Butler, did you enter into negotiations with respect to the Rowe mine in 1930?

Mr. EMMETT BUTLER. No; no negotiations were considered. A sum was offered to me, I think, but I did not seriously consider it, as I recall.

Mr. FELLER. Would you say, then, that Mr. Humphrey was mistaken when he said that there had been an agreement with Butler Bros. on the royalty?

Mr. EMMETT BUTLER. I would definitely say he was mistaken.

Mr. FELLER. Would you say that, too?

Mr. PATRICK BUTLER. Yes.

Mr. FELLER. That is all I have at the moment.

(Senator King assumed the Chair.)

Acting Chairman KING. Just one other question. Was it customary among the four purchasers and the ore sellers to make contracts to acquire all of the output of a given vendor with the provision that if the amount exceeded a given standard that the purchaser, or the seller, would have an option upon the residue? That is to say, if a man made a contract to purchase, say 50,000 tons, mined by the Rowe mine, might the contract provide that if there were more than 50,000 tons mined, that he would have the opportunity to buy the residue?

Mr. PATRICK BUTLER. Yes.

Acting Chairman KING. And that was the contract you had, as I understand it, it didn't preclude you from selling the rest of the ore at any price that you pleased.

Mr. PATRICK BUTLER. That is right.

Acting Chairman KING. But the person with whom you had the contract had the call on the ore.

Mr. PATRICK BUTLER. That is correct.

Acting Chairman KING. Isn't that common in business, you would buy a clip and the understanding is, or the expectation is that the clip will be, say, a million pounds, but the contract provides that if there is anything more than a million pounds, the purchaser shall have the option to buy the residue?

Mr. PATRICK BUTLER. That is right.

Mr. FELLER. Mr. Emmett Butler, are you aware of any other contract in the iron ore business which has a provision similar to the option provision in your contract with Pickands, Mather & Co.?

Mr. EMMETT BUTLER. I am not at the present time.

Mr. FELLER. Mr. Patrick Butler?

Mr. PATRICK BUTLER. I can't recall at the present time. We have had contracts which called for the output of all the ore in a mine.

Mr. FELLER. Mr. Chairman, this concludes the portion of the testimony on the iron-ore business which elucidates the position of the various iron-ore companies and various steel companies. We will proceed, and perhaps it might be advisable to proceed after recess. [Laughter.]

(Senator O'Mahoney resumed the Chair.)

Mr. O'CONNELL. Will you repeat that for Senator O'Mahoney, please?

Senator KING. It was stated that the testimony on the iron-ore business was concluded and you suggested we take a recess.

Mr. FELLER. Not with respect to iron ore but with respect to that portion of the testimony on iron ore which deals with the position of the individual companies and relations between certain of these companies and the steel companies.

The CHAIRMAN. Do any of the committee members desire to address any inquiries to either of these witnesses?

Mr. FELLER. Mr. Chairman, after the recess I should like to call all of the witnesses who have testified up to this point. In other words, there will be six.

The CHAIRMAN. Very well. The committee will stand at recess until 2:15.

(Whereupon at 12:10 p. m. a recess was taken until 2:15 of the same day.)

AFTERNOON SESSION

The hearing was resumed at 2:40 p. m. upon the expiration of the recess.

The CHAIRMAN. The committee will please come to order.

Mr. FELLER. I would like to recall the six gentlemen who have already been sworn in.

Mr. Hoyt, Mr. Greene, Mr. Humphrey, Mr. Oglebay, Mr. Emmett Butler, Mr. Patrick Butler.

TESTIMONY OF E. B. GREENE, PRESIDENT, CLEVELAND-CLIFFS IRON CO., CLEVELAND, OHIO; ELTON HOYT, II, MANAGER AND PARTNER, PICKANDS, MATHER & CO., CLEVELAND, OHIO; GEORGE M. HUMPHREY, PRESIDENT, M. A. HANNA CO., CLEVELAND, OHIO; EMMETT BUTLER, PRESIDENT, AND PATRICK BUTLER, BUTLER BROS., ST. PAUL, MINN.; CRISPIN OGLEBAY, PRESIDENT, OGLEBAY, NORTON & CO., CLEVELAND, OHIO—Resumed

The CHAIRMAN. Are you ready to proceed?

Mr. FELLER. Mr. Chairman, yesterday and this morning we were discussing the individual situation of these companies and their relation to each other. I should like to go into the relationships, if any, which exist among the ore companies, and then go on to the question of price of iron ore.

Mr. Greene, I show you that letter, which purports to be signed by you, taken from the files of your company. Will you identify it, please?

Mr. Greene. Yes. I identify it.

Mr. Feller. I offer this for the record.

The Chairman. Will you read the date of the letter?

Mr. Feller. The letter is addressed to Mr. Humphrey, and is dated September 19, 1934, signed by Mr. Greene. The letter reads as follows:

> Many thanks for your note regarding Alec. I am very much pleased to find that such men as yourself, Leonard, Elton, and others have been pleased by the appointment and so sincerely welcome Alec into our "union".
>
> I am glad that the iron ore business is so largely in the hands of a small group of men who all work on a close and friendly basis.

The Chairman. The letter may be admitted.

(The letter referred to was marked "Exhibit No. 1363" and is included in the appendix on p. 10436.)

Mr. Feller. Mr. Greene, is that a proper characterization of the iron-ore business?

Mr. Greene. No; I think not. That was a very friendly and personal note I wrote to acknowledge a letter from Mr. Humphrey expressing his pleasure that we had employed Mr. A. C. Brown, formerly of Cleveland, who was up in the machinery business at Bay City and who had done conspicuous work in civic matters and education and so on, a very able fellow, and we employed him and put him in as first vice president, and he was a personal friend of all of ours.

Mr. Humphrey thought it was a nice thing to do, and that is all there is to that note. The rest of it is facetious.

Mr. Feller. Is the second sentence facetious? I am referring to that specifically [reading]:

> I am glad that the iron-ore business is so largely in the hands of a small group of men who all work on a close and friendly basis.

Mr. Greene. I think we are all friends, and I think we do work on a friendly basis, but that is not an improper friendly basis. That is on a personal friendly basis.

Mr. Feller. I had not made any statement about propriety.

Senator King. How many men were there in the iron ore business at that time, 1934?

Mr. Greene. You mean employees?

Senator King. No, how many companies were there, or partnerships, in the iron-ore business?

Mr. Greene. I wouldn't know the exact number, but probably at least 10, I should say.

Senator King. Exclusive of the plants of the steel companies?

Mr. Greene. Yes, indeed; I mean those that sell ore, merchants, sellers of ore.

Mr. Feller. Just to clarify the record, Mr. Greene, I should like to identify the various people mentioned. You have already identified Mr. Brown. Who is Leonard?

Mr. Greene. Leonard is Leonard Hanna. Those are all personal friends of mine who probably wrote me a note expressing their appreciation.

Mr. Feller. I think that is clear on the face of the letter. Elton would be Mr. Hoyt?

Mr. Greene. Mr. Hoyt.

Mr. Feller. Mr. Greene, I show you now a letter which purports to be signed by you, addressed to Mr. Elliott, manager of some of

your mines, dated August 11, 1934. This letter was taken from your files. Will you identify it, please?

Mr. GREENE. I identify it.

Mr. FELLER. Mr. Chairman, I don't think it is necessary to have the whole letter printed, but I offer it for the record.

The CHAIRMAN. You mean you offer the letter or a part of the letter?

Mr. FELLER. I offer the letter, but not for printing in its entirety. I should like to read you the last paragraph.

(The letter referred to was marked "Exhibit No. 1364" and is on file with the committee.)

Mr. FELLER (reading):

The writer—

That's you, Mr. Greene—

feels indebted to Mr. Hoyt and his firm for their fine cooperation in our negotiations with the Bethlehem Co. the past year. I know you fully concur with the writer that close cooperation with our competitors is of great mutual advantage.

Would you explain that, please?

Mr. GREENE. I am very glad to. I think the whole letter there ought to be explained.

The CHAIRMAN. Well, perhaps the whole letter should be read.

Mr. FELLER. Would you like me to read the whole letter?

Mr. GREENE. I think it would be well to read the whole letter.

Mr. FELLER. The letter is addressed to Mr. Elliott. [Reading:]

You will recall that when the writer was in Ishpeming, we discussed at length the general situation and the very great disadvantage, not only to the mines themselves, but to the general situation, should the mines be closed down this summer. At that time, you will recall, we prepared data with a view to forwarding it to the Bethlehem Steel Company.

On the writer's return a conference was had with Mr. Henry G. Dalton, with reference, not only to their interest in the Athens mine, but also their influence with the Bethlehem people in connection with the Negaunee mine. Mr. Dalton informed the writer that he had that morning talked with Mr. Buck and told him that both Mr. Hoyt and myself had visited the mine and on our return we would give him our views on the matter, after checking up with the management at the mines, expecially with reference to the labor and tax situation. He asked me to defer the matter until Mr. Hoyt's return, and further, as you know, not to suggest any operation less than the equivalent of three days per week.

Upon Mr. Hoyt's return we took the matter up and it was agreed that my letter, with yours attached, and all the data should reach Mr. Buck just prior to Mr. Hoyt's talk with him. Mr. Hoyt had a long conference with Mr. Buck in New York last Thursday, and the writer, who was tied up in merger negotiations, talked with both Mr. Hoyt and Mr. Buck over the 'phone regarding the matter. We are pleased to advise you that both Bethlehem Steel Company, as to the Negaunee, and Pickands, Mather and Company, as to the Athens, have advised us that they are willing to continue the operation of these mines on the present basis. They decline in both cases to make a firm commitment to operate the mines on this basis until next May, as should conditions greatly change, they might feel obliged to change their minds.

You might be interested in a statement Mr. Buck made—that he would expect to operate the Negaunee mine just the same as he would conduct his own mining operations or as he would authorize the operation of mines under the management of Pickands, Mather and Company.

And then the matter which is read previously.

The writer feels indebted to Mr. Hoyt and his firm for their fine cooperation in our negotiations with the Bethlehem Company the past year. I know you fully concur with the writer that close cooperation with our competitors is of great mutual advantage.

Mr. GREENE. Mr. Chairman, I think the facts in this matter are these. Where our operations are centralized on the Marquette Range, where we operate probably somewhere between 7 and 11 mines, we were very much interested in keeping those mines open almost entirely to give the men work and the Neguanee mine is owned one-half by the Cleveland-Cliffs, one-half by Bethlehem Steel. The operation of that mine has to be on a mutually satisfactory basis. The Athens mine, which is alongside of it, is controlled a trifle over half by us and the other half with Pickands, Mather.

The CHAIRMAN. Then when you say on a mutually satisfactory basis you are referring to the mutuality between the owners?

Mr. GREENE. I mean in that particular mine. The Pickands, Mather are the general operating agents for the Bethlehem. Now we wanted to operate that mine 3 days a week to give the men employment. We are very keenly interested in that whole district. We knew that the companies did not want, the Bethlehem did not want, the ore. It was a matter of running the mine and piling up ore that they wouldn't ship. We took it up with them and tried to show them that they would favor that larger operation, even though it meant stock piling the ore. They were kind enough to agree with our point of view and Mr. Hoyt was helfpul in getting it, and I am pleased to say that I think that is a good sign of the result you get from friendly cooperation.

Mr. FELLER. This letter then, indicates a friendly cooperation in the matter of operating a mine which is under joint ownership?

Mr. GREENE. That is correct. There are two mines there.

The CHAIRMAN. What was the date of the letter, may I ask?

Mr. FELLER. August 11, 1934.

Mr. Greene, I should like to show you another letter which purports to be written by you addressed to Mr. Elliott, your manager, dated October 17, 1936. This letter was taken from your files, will you identify it please?

Mr. GREENE. Identified.

Mr. FELLER. Mr. Chairman, I offer this letter to be printed.

The CHAIRMAN. It will be received.

(The letter referred to was marked "Exhibit No. 1364-A" and is included in the appendix on p. 10436.)

Mr. FELLER. I shall read a portion of this letter and, if Mr. Greene cares to, I shall read the whole of it.

The CHAIRMAN. Let us read it all, as long as it is going into the record.[1]

Mr. FELLER (reading):

This will confirm our conversation over the long-distance phone last evening. Yesterday morning Mr. Elton Hoyt called the writer asking for an appointment with him and Mr. Brown, saying he had an important matter to discuss with us.

At the ensuing conference he stated that he had been north for a couple of weeks and had had a long conversation with you in which you mentioned a change in working hours. He was somewhat disturbed by this as there has been an understanding for several years, originating, I imagine, at the time of the first discussions over the N. R. A., that any changes in pay, hours, working conditions, etc. would be discussed among the big employers before action was taken so that the industry might present a united front. He further stated that in view of the numerous connections our two companies had, that he was surprised that we should have made this change without explaining the matter to him. Both Mr. Brown and the writer told him frankly of the conference which you had had with Mr. Brown when you were in Cleveland on September 22nd, and with the writer

[1] The letter, in its entirety, appears in the appendix.

on our boat going north, and that at both these conferences we had inquired particularly as to whether the new regulation was the same as that in force at the mines of our competitors. Both of us assured him that our new arrangement was complying with their condition, and that we had been the only one of the big ore companies who brought our men to the surface for lunch, and we saw no reason to advise the others when we were simply getting in line with them.

Mr. Hoyt then went on to say that we had not gotten in line with them but in his opinion, and in the opinion of Mr. Salsich, we had given the equivalent of a raise in pay inasmuch as we were paying for eight hours and not receiving that amount of labor. Mr. Brown then went into it in some detail with Mr. Hoyt but Mr. Hoyt insisted that either we were misinformed or that the situation in our own mines was not as we stated.

He left our office, not satisfied that we were correct, but greatly pleased to find out that we had not knowingly changed working conditions without notification to them. Mr. Hoyt called the writer later in the afternoon saying that he had investigated the matter carefully by telephone, and I think he had talked with both his own men and the Oliver Mining men, and stated that the facts of the matter were these: that their men reached their working places at 8:00 and left the working places at 4:30, and that they were allowed 30 minutes for lunch; that our men arrived at the working places at 8:00, left them at 4:00 and therefore ate their lunch out of the eight hours time, our men reaching the surface half an hour earlier than either the Pickands Mather or Oliver Mining men. He then asked us if we were willing to have you meet with either Mr. Chisholm or Mr. Chinn, and Mr. Salsich or whoever he nominated, and discuss this matter. He said it might not be possible to change our position, but he felt that at least we ought to be willing to talk it over. The writer agreed that his request was reasonable, and put in a call for you. As you were down in one of the mines we could not reach you until after I had reached my home.

Mr. Chairman, there is further discussion along these lines. I wonder whether it is necessary to continue to read this.

Senator KING. About the hours of labor?

Mr. FELLER. Yes.

The CHAIRMAN. The letter will be printed in the record and you may read the salient points.

THE "UNITED FRONT" POLICY

Mr. FELLER. The point about which I should like to ask you, Mr. Greene, is this sentence [reading from "Exhibit No. 1364-A"]:

At the ensuing conference he stated that he had been north for a couple of weeks and had had a long conversation with you in which you mentioned a change in working hours. He was somewhat disturbed by this as there has been an understanding for several years, originating, I imagine, at the time of the first discussions over the N. R. A., that any changes in pay, hours, working conditions, etc., would be discussed among the big employers before action was taken so that the industry might present a united front.

Mr. Greene, is that a correct statement of an understanding which had been reached among the members?

Mr. GREENE. It is my recollection that with the adoption of the N. R. A., which I recall as 1933 or 1934, I don't remember which—was it 1934?

Senator KING. 1933.

Mr. GREENE. That it was not only suggested to us, but I think we were more or less mandatory to have similar conditions. I think that was one of the underlying principles of the N. R. A. and in order to comply with at least the spirit if not the absolute letter of that, we used to talk over those things so there would be a comparative similarity, and I have no doubt that Mr. Hoyt referred back to the N. R. A.

I don't recall the exact date when the N. R. A. was declared unconstitutional, but it was perfectly natural that at that period when we

were urged by the Government to do it, that we did just those things. Maybe this was slightly after that, but that is the situation that Mr. Hoyt is referring to and I would say that as we got further away from the N. R. A. we discontinued it, probably we just naturally discontinued it. This time, it was shortly after that, we did meet and discuss that sort of situation.

Mr. FELLER. You would say, then, at some period after the N. R. A. was declared unconstitutional this united front that you referred to was dissolved or disappeared?

Mr. GREENE. I wouldn't say the words "united front" were used in the same exact meaning that they are used in present European politics. [Laughter.] It just meant a similar footing or basis.

Mr. FELLER. Was it facetious?

Mr. GREENE. No, it was using possibly a stronger term than might have been applied, that is all.

Mr. FELLER. Would you say that the united front that you referred to in that letter—the letter written in 1938—still continues?

Mr. GREENE. I just testified that it did not, the idea of meeting and discussing those kinds of conditions.

Mr. HENDERSON. May I ask, then, suppose you are going to make a change affecting pay or hours or any working conditions, do you get together with your competitors and talk it over now?

Mr. GREENE. I would say we did not.

Mr. HENDERSON. Not at all?

Mr. GREENE. We might make a casual remark, but don't get together as we used to in the days of the N. R. A.

Mr. HENDERSON. And as this shows, it was sometime after N. R. A.

Mr. GREENE. Yes; but as I say, a custom begun like that didn't break right off immediately. It is broken off now.

Mr. HENDERSON. I am quite sure there were several other industries that had that same continuation of policy.

Mr. GREENE. It wasn't a very important matter. It was largely a matter of keeping the good will of our men. The two matters referred to are the matter of eating your lunch, and one was whether you began your work at your working place, or at the collar of the mine. They are small matters of administration, you might say.

Mr. FELLER. Would you recall when the last time was when the members of the industry met to discuss these matters of pay, hours, and working conditions?

Mr. GREENE. Why, I have forgotten. It was several years ago.

Mr. FELLER. Did you meet in 1937?

Mr. GREENE. I don't recall meeting.

Mr. FELLER. I show you a telegram signed A. C. Brown, addressed to you at the Waldorf-Astoria Hotel, dated May 8, 1937. This is taken from the files of your company. Will you identify it, please?

Senator KING. I assume, Mr. Feller, there is no criticism because the companies got together under the N. R. A. and carried out the mandate of the N. R. A. with respect to wages and hours and so on.

Mr. FELLER. May I ask you, Mr. Hoyt, was there a code for the iron-ore industry under the N. R. A.?

Mr. HOYT. We had a code committee that had several meetings, I would say half a dozen. We discussed it. We got down to practically the last terms, but it was never finally put into effect, but

during that period all of the mining companies were adhering to the proposed code.

Mr. Feller. Did the proposed code provide for identity of working conditions and identity of pay?

Mr. Hoyt. That I can't remember.

Mr. Feller. Senator, may I state in answer to your question, that none of my questions imply criticism.

Mr. Greene. I can't identify it, because I haven't any recollection of it. I notice the certificate of our secretary that it is a copy of a telegram in our files, and I don't question that, but I have no recollection.

Mr. Feller. You don't question the fact that it was taken from your files.

Mr. Greene. I do not.

Mr. Feller. I offer this.

The Chairman. It may be received.

(The telegram referred to was marked "Exhibit No. 1365" and is included in the appendix on p. 10437.)

Mr. Feller. The telegram reads:

> Very important meeting Tuesday morning Pickands Mathers office same personnel previous meeting and in addition Butler representatives will be present Elliott cannot attend account of meeting on Mesaba but will send Jackson believe important you should be here Stop After discussing with Veach I telephoned Elliott compromise suggestion I made you by telephone today which he says helps situation but still is not convinced though entirely willing to do his very best Stop Schneider advises he wired you Waldorf yesterday regarding White he tells me thinks he is all right but not had whole lot of experience and is pretty green White wishes to discuss with Bob and Chris and will advise Schneider Monday Schneider told him any definite arrangement would have to be considered after your return.

Mr. Greene, as you notice, there is nothing in this telegram which gives any clue to the substance of this meeting, the matters under consideration, but am I correct in assuming that this is an account of a meeting of various members of the industry, including at least your representatives, Pickands, Mather, and Butler?

Mr. Greene. By whom is the telegram signed?

Mr. Feller. A. C. Brown, addressed to you at the Waldorf-Astoria Hotel.

Mr. Greene. The date?

Mr. Feller. May 8, 1937.

Mr. Greene. I haven't any recollection, Mr. Chairman, of that telegram, or I don't know what it refers to. The names in there confuse me. I am not sure what two or three of them are. I regret to say I haven't any recollection of that telegram.

The Chairman. Do you have any recollection of any of the substance of the message?

Mr. Greene. I don't know what it refers to.

Mr. Feller. Mr. Greene, if I were to tell you that at that time the United Steel Corporation was contemplating increasing its wage rate, would that refresh your recollection?

Mr. Greene. It might be but, no, Schneider is the manager of our marine department, and I can't imagine—and Bob and Chris might be that, but I am not positive.

Mr. Feller. Do you have any recollection of that, Mr. Hoyt, of any such meeting in May of 1937, in New York?

Mr. Hoyt. I haven't any recollection of a meeting as of that particular date, Mr. Feller, but we have had meetings in our office and general discussion. What that particular one was I don't remember offhand.

Mr. Feller. Mr. Patrick Butler, do you recall any such meeting in New York in May 1937?

Mr. Patrick Butler. I don't recall attending any such meeting.

Mr. Feller. I am informed that the meeting was in Cleveland. I am not sure of that.

Mr. Oglebay, do you recall any meeting in May of 1937?

The Chairman. May I suggest to the witnesses that responses ought to be verbal. We can't record the nods of the head very well.

Mr. Oglebay. I do not.

Mr. Humphrey. We don't seem to be mentioned. I don't think we were there.

Mr. Feller. You were not mentioned specifically. It merely says [reading]:

same personnel previous meeting and in addition Butler representatives.

Mr. Hoyt, do you recall the nature of the meeting which members of the industry had during 1937, perhaps the early part of 1937?

Mr. Hoyt. I remember a number of different meetings on a good many different conditions and things. We have had representatives of the industry on such things as silicosis, and labor conditions and taxes. It might be any one of those.

Mr. Henderson. It might be any one of those, because you did, at that period, have frequent meetings to discuss things which were common to all of the ore companies.

Mr. Hoyt. I wouldn't say frequent meetings, but any matter that came up of general interest to the group, such as taxation or silicosis, we have had a number of meetings on that sort of thing.

Mr. Henderson. Mr. Greene, since it is suggested that your marine man, Mr. Schneider—is that it?—was there, might it have had to do with any increase in the rates of pay on your steamship lines?

Mr. Greene. That is possible, but I just don't recall, you see. I was in New York, and I just haven't any recollection. It might be, but the ore companies and Schneider rather confuse me. I haven't any recollection of it at all. It could be that, Mr. Henderson, but I don't know.

Mr. Feller. Mr. Greene, you testified previously that the united front which was formed during the discussions in the early days of the N. R. A. continued for some time after the N. R. A., and then lapsed or dissolved. At any rate, it is not continued today.

Mr. Greene. I didn't testify to that. I said we started those discussions under the N. R. A., and whether or not they were cut off shortly when the decision of the Supreme Court came, I don't know. I rather think they ran on. I couldn't tell you.

Mr. Feller. You don't know just how long they did run on.

Mr. Greene. No; I haven't any idea.

Mr. Feller. But they are not running on today.

Mr. Greene. They are not.

Mr. Henderson. Could I ask a question there? Mr. Hoyt, did all the principal ore companies sign the President's reemployment agreement on minimum wages and maximum hours?

Mr. HOYT. I don't think we did, on account of working on the code at that time.

Mr. HENDERSON. You remember the P. R. A., as it was called, was in the fall of 1933, in which employers were asked by means of cards that were distributed by the postmasters to agree to certain minimum standards, minimum wages and maximum hours?

Mr. HOYT. I think that the reason perhaps that we didn't was because our hours and wages were in excess of those minimums at that time.

Mr. HENDERSON. But you indicated that you had these code committee meetings, and you did establish certain standards that you all adhered to.

Mr. HOYT. It is my recollection that would be the case.

Mr. HENDERSON. That is, growing out of your discussions, you did set certain standards that had to do with things ordinarily covered by a code, but you never got to the adoption of a code.

Mr. HOYT. No; we did not.

Mr. HENDERSON. Did you have any meeting after the Supreme Court decision in which you agreed to continue those standards?

Mr. HOYT. No, sir; but we have continued them, and I don't know of any specific meeting that was held to do it. Up in that Lake Superior country, with the mines as close together as they are, it is pretty difficult for a mine on one side to be doing one thing, and one next to it the other. It has been the custom to be fairly uniform over a long period of years.

Senator KING. The standards that you had applied in the various mining companies there, prior to the N. R. A., in wages and hours, were higher than those prescribed by the N. R. A.?

Mr. HOYT. Well now, when was the N. R. A.? Was that 1933?

Senator KING. Yes; '33.

Mr. HOYT. I think about that time there was an increase; I think, sometime in '33; the hours were changed from 10 hours to 8 hours for surface labor. The underground men had been on an 8-hour basis (the miners), for a long period of time and in order to adjust the surface labor to an 8-hour basis, there was some increase of pay which brought their hourly rate up on a relative basis.

Mr. FELLER. Mr. Hoyt, could you tell us which companies were usually represented at these meetings that you have mentioned?

Mr. HOYT. Well, I would say that on certain questions practically everybody in the industry was present.

The CHAIRMAN. Would it break the continuity of your examination if I should direct a few inquiries to Mr. Greene with respect to this telegram?

Mr. FELLER. Not at all, sir.

The CHAIRMAN. You will observe that it is dated at Cleveland on May 8.[1] It is addressed to you at the Waldorf-Astoria Hotel, signed by Mr. Brown. The first sentence refers to a very important meeting of the industry. Do you have any recollection of any meeting of the industry at or about that time which would justify the characterization of being a very important one?

Mr. GREENE. No, I don't.

The CHAIRMAN. If you will glance through the telegram a little further down, you will notice a statement by Mr. Brown that he telephoned to Mr. Elliott. Mr. Elliott is your manager, is he not?

[1] Referring to "Exhibit No. 1365," appendix, p. 10437.

Mr. GREENE. That is right.

The CHAIRMAN. Where are his offices?

Mr. GREENE. Ishpeming, Mich.

The CHAIRMAN. He says in that telegram that he telephoned to Mr. Elliott with respect to a compromise suggestion which he had made to you on the date of the telegram on the telephone. Do you have any recollection at all of any situation or any discussion with Mr. Brown which would justify him in saying that he had telephoned to Mr. Elliott about a compromise suggestion which he had made to you that day? Apparently he was in Cleveland, you were in New York, and Mr. Elliott was in Ishpeming.

Mr. GREENE. Yes; he was.

The CHAIRMAN. Does that revive your recollection at all?

Mr. GREENE. No; it doesn't. It is confusing, Mr. Senator, because here are Jackson and Elliott, who are confined entirely to the mining business, yet Schneider to boats. It just doesn't make sense.

The CHAIRMAN. As I read the telegram, all the references to Schneider and to White are distinct from the first part of the telegram. I think that that might be divided into two paragraphs dealing with two different subjects. At least I can see no connection between them on the face of the wire. So, just overlooking all reference to Mr. Schneider, does the first part of the wire arouse any recollection of any kind?

Mr. GREENE. It does not. You see, I wasn't at the meeting or the previous meeting, and whatever it was, I have completely forgotten.

The CHAIRMAN. Of course it is obvious that the author of the telegram was dealing apparently with a matter which he regarded as very important, and concerning which he telephoned to New York and he telephoned to Ishpeming, and he had offered a compromise to you and he then detailed that compromise to Mr. Elliott, and in the wire he says that Mr. Elliott wasn't entirely convinced that the compromise should be accepted or was a good one; and it has all vanished from your mind?

Mr. GREENE. I haven't the slightest recollection.

Mr. FELLER. Mr. Hoyt, will you tell us why members of the industry think it necessary to have uniform labor conditions in the ore mines? Supposing one of the companies should desire to introduce shorter hours. Why should it have to consult the other members of the industry?

Mr. HOYT. I don't think it necessarily has to consult them, but as I mentioned before, the mining country is so set up that in operating mines adjoining each other, any of the large operators making a change in wages or hours, the other mines adjoining and in that district would immediately have to follow.

Mr. HENDERSON. Let me ask you, when you had these discussions on labor and taxes and other things affecting the industry, did you have much difficulty in getting to a general agreement about labor conditions?

Mr. HOYT. I can't remember if the general discussion on labor conditions——

Mr. HENDERSON (interposing). Take it on any specific labor condition.

Mr. HOYT. I have talked with a great many people in the industry at different times.

Mr. HENDERSON. Well, did you get a uniformity, as you say?

Mr. HOYT. We get it automatically.

Mr. HENDERSON. I am talking about when there is a proposal for a change. Do you have much difficulty in getting general agreement as to the desirability of the change?

Mr. HOYT. Very often, sir; it is published in the newspapers that one or more of the large steel companies have increased the base labor, and I would say automatically from that point on the rate up in the Lake Superior district is also modified.

Mr. HENDERSON. You might have your industry meeting and consider a change which had come around on account of the steel companies' posting a new rate, and therefore the desirability of meeting that?

Mr. HOYT. I don't remember of ever having an industry meeting where we sat and just discussed whether the rate should go up or the hours should change, except in connection with the code. Individually I have talked to a great many operators many times on conditions affecting labor.

Mr. FELLER. Do the words "a united front" have some meaning in the industry?

Mr. HOYT. It had definitely at that time, because we were coming down here, the code committee; I think there were five to meet with the representative of the N. R. A. and we wanted to be able to tell them that the industry was doing such and such and so and so, and definite.

Mr. FELLER. In other words, that term was in use at the beginning of the N. R. A.?

Mr. HOYT. I never heard of the term excepting as you read it out here.

Mr. FELLER. Mr. Greene, may I pass you this letter? It is dated May 24, 1938; purports to be written by you, and is addressed to Mr. Elliott. Will you identify it, please? Do you identify it?

Mr. GREENE. I do.

Mr. FELLER. I offer this letter, Mr. Chairman.

The CHAIRMAN. The letter may be received.

(The letter referred to was marked "Exhibit No. 1366" and is included in the appendix on p. 10438.)

Mr. FELLER. I should like to read you, Mr. Greene, this sentence [reading]:

> During the troublesome times which started with, say the NRA, right up to the present time, the interests of Pickands, Mather and ourselves have been working in the closest harmony, and the combined efforts of these two interests have brought about a united front in the ore industry. I am speaking from absolute personal knowledge of these matters.

I want to recall to your mind the fact that this letter was written May 24, 1938. Is it correct to say that the "united front" continued at least until that date?

Mr. GREENE. I am again referring to the same thing there. Unfortunately, the iron-ore industry was pretty flat from about the summer of 1930 until shortly before that time it was written, and each year I had to take up with the Bethlehem and with Pickands, Mather the question of the operation of the Athens & Negaunee mine and each time I wanted to operate that mine more than either one of them wanted to do, and I was grateful to both the Pickands, Mather and

especially to Mr. Hoyt, for not only agreeing as to Pickands, Mather's operation of the Athens, but also assisting and recommending to Bethlehem that our judgment in that matter prevailed.

And I have always felt grateful to those two companies for having permitted us to operate those mines, collecting an undue amount of ore, and rather against their judgment permit us to give that employment. I am again referring to that same matter.

Mr. FELLER. Mr. Greene, in these meetings were prices discussed?

Mr. GREENE. Were what?

Mr. FELLER. Were there any discussions of the prices of iron ore?

Mr. GREENE. I don't recall any.

Mr. FELLER. And the term "united front" would apply, then, to matters other than price?

Mr. GREENE. Absolutely. That refers to the operation of the mines and to the matters that Mr. Hoyt referred to, silicosis and so on.

THE LAKE ERIE BASE PRICE

Mr. FELLER. Mr. Hoyt, as I understand it, the shipment of ore is a seasonal business, is it not?

Mr. HOYT. That is correct.

Mr. FELLER. And it depends on the weather on the Great Lakes?

Mr. HOYT. Well, it depends on the open season of navigation on the Great Lakes.

Mr. FELLER. That is right. When does that season begin?

Mr. HOYT. It varies. I would say on the average, May 1; sometimes earlier, sometimes a little later.

Mr. FELLER. And when does it usually conclude?

Mr. HOYT. Around usually the middle of November; sometimes later when we are pressed for ore.

Mr. FELLER. Now, Mr. Hoyt, it is true, is it not, that one of the standard terms in the iron-ore industry is the Lake Erie base price?

Mr. HOYT. Yes, sir.

Mr. FELLER. Could you tell us what the Lake Erie base price is?

Mr. HOYT. The Lake Erie base price is a result of the negotiations that go on between the ore sellers and their customers which result in an agreement between them as to a price that will prevail as between them during a certain year or in many cases as it might maintain between them on a long-time contract.

Mr. FELLER. Is it correct to say that the Lake Erie base price is the price at which iron ore is sold during the season, determined by the first substantial chance sale of the season?

Mr. HOYT. No, sir.

Mr. FELLER. In other words, if a sale is made at the beginning of the season at a certain price, a substantial sale, the Lake Erie base price may vary during that season?

Mr. HOYT. No; that isn't true. You said a substantial "chance" sale. That was the term that I didn't agree with.

Mr. FELLER. It is the word "chance" with which you do not agree?

Mr. HOYT. Yes.

Mr. FELLER. Then let me put it this way. When the first substantial sale of the season is made, does the price at which that sale occurs become known to the industry?

Mr. Hoyt. It does; for example, if I have negotiated with our customers and arrived at a satisfactory price, to me, I am anxious to get that set and published as rapidly as possible on account of determining the balance of the tonnage that we have on the contract based on that Lake Erie price.

Mr. Feller. Then the Lake Erie base price for the balance of that season would be the same price that was arrived at in this first substantial sale which you negotiated?

Mr. Hoyt. It would be the same base, Mr. Feller, but from this base price, or we will say 51.50 standard guaranteed ore; there are many deductions for quality, for analysis; sometimes for structure; sometimes and very often for a long-time obligation that it sells—that the purchaser is willing to commit himself for over a period of years.

Mr. Feller. Let me see if I understand that, then. A substantial sale is made at the beginning of the season, let us say by your company. That sale we will say consists of iron ore having a 51.50 iron content. That would then be published, would it not, in the trade journals and would be the Lake Erie base price for the year?

Mr. Hoyt. No, sir; because none of these orders run exactly on the analysis of 51.50. In other words, the standard as set up is the custom in the trade over many years of base ores, old range Bessemer, Mesaba Bessemer, old range non-Bessemer, Mesaba non-Bessemer, which are 51.50 as a base ore; that is a theoretical base. Now when the ore is delivered from any of these mines they are guaranteed to the average that that mine is expected to produce. It may be 52 percent; it may be 50; and there are adjustments as between the base price for a 51.50 ore and the ores actually delivered.

Mr. Feller. Yes. In other words, the price for 51.50 ore, which is the standard, as you said, for the industry, would be determined by this first sale, first substantial sale, and every sale that is made thereafter, the price would depend upon the variation of the iron content from the 51.50 standard?

Mr. Hoyt. That would be true, but it might vary for other reasons as well. The one thing that you have to keep in mind, Mr. Feller, in this business, you say it is a seasonal business. It is a very definitely seasonal business. In the early spring the purchasers of ore have to figure out their very best estimates for their requirements, not on a month-to-month basis, or 4 months or 6 months, but to take them through until the opening of the next season of navigation. Just on that alone you can see that the steel companies and other purchasers of ore have to estimate a great deal on what their requirements are going to be.

Now usually they make the very best guess they can on their present operating rate, as to how it will continue through the open season, but normally they would expect to take down enough ore to run their blast furnaces through the winter in the event that sudden changes in conditions in the steel industry occurred. Further than that you must remember that in making these various kinds of pig iron and kinds of steel a great many different kinds of ores have to be used. In other words, it is a mixture in the blast furnace; it may be four to five grades, with special grades thrown in, that he has—that the purchaser has—to take into consideration when he is making his estimate.

It is impossible to make pig iron—I won't say it is impossible, but these various special grades of pig iron, out of just one ore. Therefore, he is bringing down maybe five or six different kinds and he is also limited by the amount of a dock space either at lower lake docks or at his own plant. That is the reason why we consider it, and you have said properly that it is a very seasonal business and it is also one of the reasons that makes a very great fluctuation in the ore industry from year to year.

Mr. FELLER. Well, again may I ask you this. It is correct to say that there is a standard price which is published in all the journals concerning themselves with the ore industry, which is called the Lake Erie base price; that that price is based upon a 51.50 iron content in the ore and further that that price, that standard base price, the Lake Erie base price, is determined by custom in the industry, by the first substantial sale of each season?

Mr. HOYT. By the first substantial sale of each season which would be the result of the negotiations say between our company and the steel company, and it might very easily be a tonnage applying on a long-time contract, or it might be in years before the recent times on just ordinary spot sale, but during the last seven or eight years, since '31, the ore industry has been burdened down with an accumulation of ore which was brought about by the general basis of understanding in business generally back in '27 to '29, that things were going on perhaps indefinitely on that basis, and since that time the iron ore industry has been suffering with, you might say, overproduction and overinventories, until we will say the year 1936 it began to come out of it; '37 it looked as if it was coming out, and before '37 was over there was a change, very violent change, so that the shipments in '37 were some 63,000,000 tons and in '38 dropped down to 19,000,000 tons.

Mr. FELLER. Now I understand that it is correct to say that the standard price in the industry is the Lake Erie base price. That this price is determined on the basis of the first substantial sale of the season, which may, as you have stated, be a spot sale or may be on a long-term contract; that is correct.

Mr. HOYT. It is. It is published, recognized price in the trade.

Senator KING. May I ask for my own information? Suppose two men came with say 1,000,000 tons, or any given quantity of ore, to the boat for sale.

Mr. HOYT. To the what, sir?

Senator KING. By boat; it is shipped by boat, isn't it?

Mr. HOYT. Yes, sir.

Senator KING. And the ore of one assayed 65 percent iron content and a little sulphur, a little phosphorus, and other metals, and the other, B's ore, assayed 50 percent, plus this 20, would there be any difference in the price?

Mr. HOYT. Very definitely on the base price, Senator. As I explained, 51.50 is a base guarantee in which all ores are figured. The unit value is arrived at by dividing the base published price by 51.50, and you arrive at a unit value; roughly, we will say 10 cents a unit.

The CHAIRMAN. What is a unit?

Mr. HOYT. A unit of natural iron. In other words, it is a value for a unit of natural iron.

Now, if the ore should figure 65 percent in iron, naturally, you would multiply that unit value by the 65 percent.

Senator King. Supposing the ore contained deleterious matter. I don't know whether any of the ore does contain phosphorous or some other refractory elements. Would that affect the value of the ore?

Mr. Hoyt. It would make it very much harder to sell. For example, if an ore runs high in silica, it is very customary, if you want to sell it, to make some reduction for that silica. In the same way the high phosphorous ore on the Menominee range sells on a base differential lower than the old range, the Mesabi range.

Senator King. I know in the West if there is phosphorous or if there is arsenic or some deleterious refractory element you are penalized a considerable amount because of the difficulty in working out the ore and freeing it from those deleterious substances. I was wondering if the same principle applied with respect to your iron ores.

Mr. Hoyt. The same principle applies, sir.

Senator King. So that one iron ore would have the same value as another, depending on whether there were any deleterious elements in the ore.

Mr. Hoyt. Yes.

Mr. Henderson. Mr. Hoyt, after this base price of 51.50 has been fixed by the first substantial sale, that becomes the price, then, which is charged for that particular quality by all other ore sellers, does it not?

Mr. Hoyt. I can say this, that it is pretty definite that if that price has been published, no other ore seller can get a higher price than that from his customers, because he will just simply end by losing the trade.

Mr. Henderson. I can understand that, but does that become the accepted base price in the industry?

Mr. Hoyt. The accepted base from which the prices covering respective and individual ores are figured.

Mr. Henderson. Mr. Greene, suppose Mr. Hoyt's company had the first negotiated contract, and that was published. Would that be your price then for the balance of that season?

Mr. Greene. Well, most of our ore is sold under time contract, but our contracts are based on that price, just as Mr. Hoyt says, and if we had a current sale we would try to get that price. We would do the best we could.

Mr. Henderson. Is that true, Mr. Humphrey, of your company?

Mr. Greene. We have a great many prices. We get as near as we can to them.

Mr. Humphrey. We start with that as a base and we figure from that the premiums and penalties, and finally arrive with our customers at a value of the ores that we have to sell. That may be our price or another price.

Mr. Henderson. But for exactly the same grade above or below 51.50 it would tend to be, throughout the trade, the same price, would it not?

Mr. Hoyt. It would tend to be, but I haven't any idea that it necessarily would follow, sir.

Mr. Henderson. But the tendency would be for that to be the base from which any negotiation took place?

Mr. Hoyt. That's right. Any negotiation would take place from that price.

Mr. FELLER. It is correct to say, is it not, that the Lake Erie base price is the delivered price? It also includes the freight from the upper lake to the lower lake port?

Mr. HOYT. It includes that as a published base, but by deducting the lake freight, rail freight, and unloading charges in the trade you can bring that same price back to an f. o. b. mine price.

Mr. FELLER. How is the freight rate determined?

Mr. HOYT. The freight rate is determined on the basis of the owner of the vessel tonnage, who hasn't tonnage, and the operator of a mine or steel company who has ore and coal, possibly, and not tonnage, getting together and agreeing on a rate that is satisfactory to them.

Mr. FELLER. And does that rate become the standard for the industry for the balance of that season?

Mr. HOYT. During the early part of the season the people from the trade papers are constantly in the offices of the iron ore people and coal people and vessel people to get this information as soon as it is available, and when it is published they find out about it, it gets known, it sets the rate. It doesn't mean that someone isn't going to, if they want to, take a lower rate. It becomes a published rate which is used in the trade.

Mr. FELLER. Mr. Oglebay, to complete the record on this point, do your term contracts contain a price which is related to the Lake Erie base price?

Mr. OGLEBAY. Some of our contracts do. The majority of our contracts have no relationship with the Lake Erie selling price.

Mr. FELLER. Would it be correct to say that perhaps (you may disagree with this) five of your contracts are related to the Lake Erie price and four are not?

Mr. OGLEBAY. I don't know that. That is a long relationship, I think, as to tonnage, but in detail I don't know whether that is true or not.

Mr. FELLER. Mr. Emmett Butler, may I put the same question to you? Are your contracts also related to the Lake Erie base price?

Mr. EMMETT BUTLER. Yes, sir.

Mr. FELLER. To keep the record straight, our information is that you have three contracts which are not.

Mr. EMMETT BUTLER. Three contracts which are not?

Mr. FELLER. The others apparently are.

Mr. EMMETT BUTLER. I would like to answer it truthfully. We have two contracts, I am sure, that are related to market price, one that is not. We had three last year.

Senator KING. Suppose that a company consumes the mineral, the ore, manufactures steel, owns its own vessels and hauls its own ore and its own coal from the mining district to the place where the mills are operated, who fixes the price that they charge?

Mr. EMMETT BUTLER. You mean——

Senator KING (interposing). They fix their own price?

Mr. EMMETT BUTLER. As far as I am concerned, they fix their own price.

Senator KING. And there are a number of companies who own their own boats and ship their own ore?

Mr. EMMETT BUTLER. That is right.

Senator KING. Do you know what relation those prices bear to the prices that are charged by the other persons who are hauling for the mine owners?

Mr. EMMETT BUTLER. I don't know definitely, but I imagine they are pretty much in line.

Mr. FELLER. Mr. Chairman, I offer for the record two charts prepared by the Department of Justice. One chart is entitled "Iron Ore Prices, 1925–1939." The source is Lake Superior Iron Ore Association and the prices, as it is explained on the chart, are base prices per gross ton of Lake Superior Iron Ore at Lake Erie ports—Mesaba non-bessemer ores—51.50 iron natural content.

I also offer for the record another chart entitled "Lake Freight Rates on Iron Ore, 1925–1939." The source is Lake Superior Iron Ore Association, and the footnote states that the rates are per gross ton—to lower lake ports from head of Lake Superior—includes unloading charge.

The CHAIRMAN. The charts may be received in evidence.

(The charts referred to were marked "Exhibits Nos. 1367 and 1368" and are included in the appendix on pp. 10439 and 10440).

Senator KING. I would like to ask one question. Mr. Hoyt, do you know what proportion of the ore hauled from the mining section which we just referred to, is hauled in boats owned by the companies that are utilizing the ores for proper purchase and what are hauled by freight companies that are not mine operators, but engaged purely in the hauling of ore?

Mr. HOYT. It would be a guess, Senator, but it might be somewhere, I would think, between 30 and 40 percent that would be hauled in vessel companies which were not connected directly with the steel companies or the producers, but that is a guess.

Mr. FELLER. To clarify the record further, Mr. Hoyt, we have asked the various gentlemen the relations between the Lake Erie base price and the contract sales. There is also another type of sale, is there not, the spot sale?

Mr. HOYT. Yes, sir.

Mr. FELLER. The Lake Erie base price is used in making spot sales, is it not?

Mr. HOYT. That would depend on the individual. As far as our concern, it involves spot sales on the Lake Erie price.

Mr. FELLER. Mr. Greene?

Mr. GREENE. Yes.

Mr. FELLER. Mr. Emmett Butler?

Mr. EMMETT BUTLER. Yes.

Mr. FELLER. Mr. Oglebay?

Mr. OGLEBAY. Yes.

Mr. FELLER. Mr. Humphrey?

Mr. HUMPHREY. I'm sorry, I didn't hear the question.

Mr. FELLER. The question is whether the Lake Erie base price is used in making spot sales by your company.

Mr. HUMPHREY. Yes; I think it is, that is the basis.

Mr. GREENE. That is the basis; I would like to make that clear.

Mr. FELLER. Yes; that was the meaning of my term as used.

Mr. HUMPHREY. That is where we begin the credits and debits.

PRICE RIGIDITY

Mr. FELLER. Mr. Chairman, if the members of the committee would look at the chart entitled "Iron Ore Prices,"[1] I might state further here, the line which begins at the left-hand side of the chart is at the level of $4.25. That was the Lake Erie base price of 51.50 iron ore in 1925, 1926, 1927, 1928. In 1929 the Lake Erie base price was at $4.50 and it was also at $4.50 in each succeeding year through 1936. In 1937 the Lake Erie base price was $4.95 and remained at that price in 1937, 1938, and 1939.

Looking at the companion chart entitled "Lake Freight Rates on Iron Ore,"[2] the line beginning at the left-hand side of the page is the freight rate at 83 cents in each of the years from 1925 through 1936. In 1937 the lake freight rate on iron ore was 93 cents and it continued that way in 1938 and 1939.

Mr. Hoyt, can you explain the fact that the Lake Erie base price remained at precisely the same level for 4 years between 1925 and 1928 and then for all the years between 1929 and 1936?

Mr. HOYT. I don't think I can explain specifically except generally, prior to 1928, except that that was the best price that could be arrived at at that time on the basis between the customer and the purchaser, or the customer and the seller. But 1929, as you remember, costs had gone up, prices had gone up, and the steel industry was running at a high rate and we were able to get a higher price for 1929.

I think we are all familiar with what happened at the end of 1929 and from that period on the whole Lake Superior district—as I have touched upon before—and the steel industry generally, was laden down with iron ore, both that they had at their properties at lower lakes, and through overdevelopment of mines which had taken place in the 4 years prior to 1929. It was, I can state definitely, that the steel business, up until about 1925, had gone along over a long period of time on a pretty satisfactory basis, as far as volume was concerned, and with the boom conditions in that period steel companies went out and were anxious to increase their ore reserve because they felt they would need additional resources back of their steel plants if this steel rate went on which at that time we were all, I think, foolish enough to believe it would. It was during that period that we entered into the contract with Butler Bros. for Bethlehem Steel Co. and ourselves, or, in other words, not ourselves but for Dalton Ore Co. in order to give them additional ore reserves against the future.

Now, starting in 1930, from 1930 to 1931, there was unquestionably the thought, generally speaking, as I remember it, that prosperity might be pretty close around the corner and to try and keep things at a level during that period. In 1931 or 1932 the collapse came and the steel industry took forward in that year three million and a half tons of ore, and you had to go back to 1884 or very close to that period, to find a comparable year.

That was an industry that had been set up to produce I don't know how much tonnage, but at least they had been able to ship sixty-plus million tons and there isn't any doubt that they could have shipped a considerably larger tonnage. That meant that every steel company, every owner of ore, was faced with the problem of tremendous carrying charges on these idle properties during that period. Taxes, as I remember offhand, in Minnesota in 1932, on the

[1] "Exhibit No. 1367", appendix, p. 10439.
[2] "Exhibit No. 1368", appendix, p. 10440.

basis of the ore shipped, were over $7 a ton, and in Michigan, say, over $2 a ton, on the ore that was shipped in that year.

There were minimums that had to be met on these mine leases and there was a constant endeavor on the part of the whole iron ore industry to keep the labor situation—to keep all of their old employees alive and fed and clothed.

Now, it was impossible to operate the open-pit mines and produce ore from them, but everybody that had an opportunity to do stripping or other useful work which did not have its producer, employed their men that way. They did their best to employ the underground mines and pile the ore up in a stock pile, although it was difficult, under the conditions, to operate them better than 2 days a week.

Everybody in the industry was in the same situation whether he was a buyer or a seller, or a steel plant, or an ordinary merchant producer, and the long-time contracts that had been entered into during the heyday of the late twenties became a matter of negotiation between the buyers and the sellers or the parties to the contract.

Mr. FELLER. Mr. Hoyt, are you familiar with the course of steel prices in the years 1930, 1931, and 1932?

Mr. HOYT. I am not. I would like to finish, Mr. Feller.

Mr. FELLER. Yes, please, I am sorry, I thought you had finished.

Mr. HOYT. I was answering your question.

For example, on purchase contracts a steel customer, say, would come to us and would want an adjustment. He couldn't take tonnage. We told him he would have to take tonnage or we would be in great difficulty. We had obligations to meet, as I have explained, at our properties, and as a result of that we would come to an agreement that they would pay us as high a price as we could get and we would relieve them of some tonnage. It was a question of compromise, and that condition went through pretty nearly this whole period until the steel business began to pick up in 1936. I would say that during that period the spot sales were practically nil, and it is pretty obvious why.

Mr. FELLER. I would like to make a statement for the committee.

Mr. Hoyt has testified in answer to the question as to the behavior of steel prices that he wasn't familiar with that. If the committee will turn to page 27 of the pamphlet introduced, chart 8,[1] it gives the finished steel composite price index from 1926 through 1939 by months.

Mr. HENDERSON. As I understand, from your previous testimony Mr. Hoyt, the way in which this price, as it appears on the chart,[1] is arrived at is by the first substantial contract negotiated in the beginning of the season. Was that true of the prices in 1929, 1930, and up to 1936?

Mr. HOYT. I know it was true in one or two instances, and I assume it must have been true in the other years.

Mr. HENDERSON. You testified there was a surplusage of ore above ground in all of those years, and yet the volume that was sold seemed to have had no effect on that negotiated price at the beginning of each year.

Mr. HOYT. I explained, I think, that there were no what Mr. Feller referred to as "spot sales." The tonnage brought down was the result of negotiation on these long-time contracts, compromised in many instances as to what the purchaser could take forward and what the seller would agree to consider as the limit.

[1] "Exhibit No 1349", at appendix p. 10420.

Mr. HENDERSON. Aren't a number of the contracts made from year to year?

Mr. HOYT. Not on the long-time contracts.

Mr. HENDERSON. No; but it was testified I think by some of the witnesses that they have these year-to-year contracts. Isn't that what it is, Mr. Oglebay, with most of the contracts of the companies that you manage?

Mr. OGLEBAY. No; we have no—I should say in the last 10 years we have made only two spot sales. One in '37 and one '38.

Mr. AVILDSEN. I believe he testified as to employment contracts being year to year.

Mr. OGLEBAY. That is right. We have sold spot sales in '37 and we have sold it this year, but those were the only two sales we have made since '29.

Mr. HENDERSON. Mr. Butler, how about your sales during this period from '29 to '36? Were they on long-term contracts?

Mr. EMMETT BUTLER. For the most part.

Mr. HENDERSON. What was the long-term contract, was it supposed to be at the Lake Erie price; was it made each year?

Mr. EMMETT BUTLER. Not the long-term contract; they had a relation to the Marquette price.

Mr. HENDERSON. Mr. Greene, how about what you sold in the open market?

Mr. GREENE. We had a few spot sales over these years, but they weren't important in amount or number.

Mr. HENDERSON. Mr. Humphrey.

Mr. HUMPHREY. We had very few, Mr. Henderson, and very small tonnages.

Mr. HENDERSON. Did you have the same experiences, Mr. Humphrey, with the steel producers as far as your contracts are concerned? Did they agree to pay this uniform price in each of those years?

Mr. HUMPHREY. I don't think you quite understand, Mr. Henderson. This uniform price that is traced here is the base price.

Mr. HENDERSON. That is right.

Mr. HUMPHREY. From that base price there are all sorts of allowances made. That does not mean that all the ore moves at that price, a great tonnage moves below that price and at varying amounts below that price, I don't think there are very many ore moves above the price, but there is a great deal of ore that will move at or somewhat below for all sorts of reasons.

Mr. FELLER. But related to that price?

Mr. HUMPHREY. It has a relation to the price, that is the base you begin your computations. But these gentlemen have in their files a lot of contracts for ore and they can show you there are many, many prices for ore in this business. It is not a uniform price.

The CHAIRMAN. Do these prices vary in a uniform degree according to the content of the ore, from the base price?

Mr. HUMPHREY. That is one of the provisions of variation, but there are also a number of other provisions for variation which are not uniform.

The CHAIRMAN. Now, let us take this chart which has been prepared by the Department of Justice.[1] The line which is drawn upon the chart represents the base price for 51.50.

[1] "Exhibit No. 1367," appendix, p. 10439.

Mr. HUMPHREY. Non-bessemer ore.

The CHAIRMAN. That is natural content. Now, let us assume a content of 55. Is that a normal content?

Mr. HUMPHREY. There are such ores.

The CHAIRMAN. Would you name to me an ore which is well-known throughout?

Mr. HUMPHREY. An ore can run very easily, there are ores that run up as high as 55, there are ores that run down as low as 47 or 48.

The CHAIRMAN. Would 52 or 53 be a normal ore?

Mr. HUMPHREY. There are ores within all of those limits.

The CHAIRMAN. Generally speaking, out of your experience, if this chart were plotted for 53 percent ore, would the line follow the general trend represented here for 51.50?

Mr. HUMPHREY. It would follow the same line except it would be a little higher or a little lower if you took into account only adjustments for iron content.

The CHAIRMAN. Yes.

Mr. HUMPHREY. But there are other items.

The CHAIRMAN. What are they?

Mr. HUMPHREYS. There are penalties for silica, phosphorus.

The CHAIRMAN. If the penalties were assessed that would be the line below this line.

Mr. HUMPHREY. Those are not all standard; there are penalties or premiums dependent upon whether it is for one year or a period of years or a high minimum. Now all of those things vary from this price and an ore that I might deliver and an ore that someone else might deliver would not follow this line at all.

The CHAIRMAN. When you say it would not follow the line, you mean it would have no relationship to the line?

Mr. HUMPHREY. It might not at all, so an allowance we made might not be made for someone else.

The CHAIRMAN. Divergence for this line would depend, I take it, upon the presence in the ore of some unusual material for which there was a penalty or a premium which would not be characteristic of other ores?

Mr. HUMPHREY. That would be a matter of agreement between us and our customers or it might also vary because we had sold it for a period or because our customer agreed to take a large tonnage a year or something of that kind. We might make any concession that we and our customer would agree to.

The CHAIRMAN. It is perfectly obvious that there might be natural conditions in the properties owned and managed by your company which are altogether different from those operated by Pickands, Mather, for example.

Mr. HUMPHREY. Not only natural but commercial. We might make an allowance that Pickands, Mather would not make.

The CHAIRMAN. I think I understand. Now let us eliminate those natural conditions of content which would bring about a premium or penalty, and consider the normal run of ore as found, generally speaking, throughout the ore country. Then, with the prices depending now largely upon the natural iron content, would they vary from this chart, would they follow this chart generally speaking?

Mr. HUMPHREY. I think not. I think they would follow in a way, but they would vary in quite a wide degree, depending upon the

various agreements that had been come to between various buyers and sellers with respect to their particular contracts.

The CHAIRMAN. What would be the variation between spot contracts and term contracts?

Mr. HUMPHREY. The spot sales would be, as a rule, higher than the term contracts. There are broader concessions. The spot sales would more closely follow the line; the term contracts would vary more from the line.

The CHAIRMAN. How far would the term contracts vary from the line?

Mr. HUMPHREY. They might vary a good many cents a ton.

The CHAIRMAN. Then what is the significance of the base price in the industry as a whole?

Mr. HUMPHREY. It is the base from which all calculations are started. That is where you begin.

The CHAIRMAN. That is uniform throughout the industry? Every producer of iron ore will use this base for the beginning of all calculations?

Mr. HUMPHREY. I think it is simply this, Mr. Chairman, that when any seller finds that another seller has made a certain price and has goods for sale at that price, he realizes at once he can't get more for his goods of an equivalent value and of an equivalent kind than that man is willing to take. He can get less, and make arrangements to get less, but he can't get more, so that when somebody agrees with their customer and has ore for sale, and sells ore at a price, it is pretty generally recognized that you can't get more for it at that time. There is just one other thing that you ought to have in mind about this and that is this, that ore is not sold continuingly over the year. While it is delivered over the whole summer months, it is all sold, and the commitments are all made, very early in the spring and within a very short space of time.

Now, those commitments can't readily be changed throughout the rest of the year. The tonnages can be increased or decreased, but generally speaking the purchasers have to take the same tonnages of ore and deal with the same people throughout the rest of the year, and on the same basis that they start with, do you see, because of the dark space and because of the transportation and because of the closed season of navigation, so that these prices are the prices prevailing and at which you start to do your business and to make your calculations over a short period of a few days or a few weeks in the spring when the business is done and completed for the year. Then you wait for the next year.

The CHAIRMAN. Then is it a spot contract or a term contract that determines this Lake Erie base price?

Mr. HUMPHREY. It can be either.

The CHAIRMAN. Well, then, if it can be either and the spot contracts are, as I understood you to testify, normally higher than the term contracts, how are we to account for the practical uniformity of this base price through this long period?

Mr. HUMPHREY. You would start from the same base in both instances. It would be the same base. A spot sale and a term sale would be made at the same base. The difference in actual money paid would be arrived at by variations from that base.

The CHAIRMAN. I didn't make myself clear. Mr. Hoyt testified, and my mind was pretty clear about it after listening to him, that the

Lake Erie base price was determined by the first substantial sale at the opening of each season. That is correct, is it not?

Mr. HUMPHREY. That is correct, as a rule.

The CHAIRMAN. Now, then, if there is a difference between the spot price and the contract price and the spot price is higher, and if, as you say, this may be determined by either a spot sale or a term sale, I am at a loss to explain the practical uniformity.

Mr. HUMPHREY. The difference that you fail to grasp, I think, is this, that the price in both instances is a computed price starting from the same base. It is the same base, do you see. In other words, whether it is a spot sale or whether it is a contract sale, you start with the same base. If the spot sale is made at the base price——

The CHAIRMAN (interposing). What I am trying to find out is how do you determine that base? My understanding is that the base is determined by the first sale. Now you tell me it is not the first sale, it is something else which has not appeared.

Mr. HUMPHREY. The first sale is determined by the price agreed to between the buyer and the seller as a base for that first sale.

The CHAIRMAN. Then, if you will look at this chart,[1] you will observe that between the years 1929 and 1937 there was no variation whatsoever.

Mr. HUMPHREY. That is accounted for, as Mr. Hoyt has explained to you, because of the fact that during this period our customers were obligated to us, under contracts in amounts which they could not perform. They were coming to us and asking concessions from us. We, on the other hand, with our reduced tonnages, had costs that were very high. We were asking concessions from them and price was a matter of mutual agreement between the buyer and the seller, both of whom were under obligations to the other, because they had overbought and were overcommitted over a period of time because of the very low tonnage of 1931 and '32.

The CHAIRMAN. Well, then, the base price was not fixed in the manner that has been described. It was fixed in some other manner.

Mr. HUMPHREY. It was fixed usually in those periods on a settlement based on the long-term contracts upon which the money was paid, and you started from that base to make the sale for that year under that contract.

Mr. HENDERSON. How did it come about, though, that it always fell at that particular price in each of those years, in a world that was experiencing a tremendous amount of change, in which costs, outside of these freight rates, were being changed, in which the volume was being changed, and in which the prospects were different at the beginning of each of the contracting seasons. How do you explain why it happened to come out just at that point, that the first substantial contract arranged in each year turned out exactly at the same point?

Mr. HUMPHREY. That was the best compromise base that could be got to do what was fair to buyer and seller under the respective obligations.

Mr. HENDERSON. Did all the respective buyers and sellers negotiate and come to this as a composite thought?

Mr. HUMPHREY. No; I think what happened was that some buyer and seller would agree to settle on that basis, and all the others followed suit.

[1] "Exhibit No. 1367."

Mr. HENDERSON. Was there any understanding as to how that first contract would get made in each year, so that it might serve as the basis for the other ore sellers?

Mr. HUMPHREY. No; I think not.

Mr. HENDERSON. Doesn't it strike you as strange, as it does me, that it should happen to turn out that way each year?

Mr. HUMPHREY. I don't think so, Mr. Henderson, when you think that in a good many of these years we had costs at our mines, because of the reduced volume and excessive overhead, that were way in excess of the prices.

Mr. HENDERSON. I can understand that very easily.

Mr. HUMPHREY. And the reason we had those high costs was because our customers, who were obligated to us, to take from us—I am talking about ourselves now—tonnages of ore that if they had taken them would have given us low costs, refused to take those tonnages, couldn't take those tonnages.

Mr. HENDERSON. But it turned out that so far as each of you is concerned, this adjusted basis got to be, and stayed for years, at exactly the same price. Taking into account all the things you have spoken about as being true as to the obligations of the producers to take a certain contractual amount of ore, with as many buyers and as many sellers in any other commodity you would expect most certainly that that base price would have changed a jot or a tittle, would you not, some time during that period?

Mr. HUMPHREY. I think the changes that took place, instead of being made in the base, were made in the allowances that were made up or down.

Mr. HENDERSON. I am quite sure of that.

Mr. HUMPHREY. And I think the base itself, when you had this matter of dispute it was quite a natural thing, when you couldn't agree on a change, to continue on the same base you had been previously on.

Mr. HENDERSON. I can understand that as between you and all the parties with whom you deal, but what I still haven't got a satisfactory explanation of is why it came out for all of the sellers and all of the buyers at this particular base point. Was there a feeling that this was just nominal? Let me ask you this. Was there any discussion among the 10 principal ore sellers about how to arrive at this base price?

Mr. HUMPHREY. We discussed many times, of course, what the conditions were and how movements would be and what the tonnage would be, and people's obligations, but what would happen would be that if we settled with our customer on a base, couldn't agree on a change in base and therefore went along for one more year trying to work ourselves out of our trouble on this base, somebody else—or, if somebody else agreed on that and we heard of it and we had to make some little adjustment, we would make the adjustment not in the base but in the additions or subtractions to or from that base.

Mr. HENDERSON. Would you hear about the prospect of continuing that rate before the first substantial sale of the season in each of these years?

Mr. HUMPHREY. You would hear a lot of talk about it; you and your customers would talk and you would hear a good deal of discussion about whether you could get more or less ore in a particular year,

but you wouldn't know what it would be until somebody did it and you read it in the newspaper.

Mr. HENDERSON. You haven't answered the question as to whether or not there were any definitive discussions among the sellers about this base price.

Mr. HUMPHREY. I have talked to practically all of the sellers and a good many of the buyers almost every year about prospects and conditions and prices and what could happen, but when we come right down to brass tacks, so far as we are concerned we had to settle with some customer that was buying our ore, and agree with him.

Mr. HENDERSON. And that depended upon the strength of your bargaining position. You are telling me that the actual price that was made easily could be something different from this, but as to the basis of this, there is a uniformity that probably derives from the conversations you have had.

Mr. HUMPHREY. That went along year after year.

Mr. FELLER. You are also, in addition to your connection with the iron-ore company, connected with National Steel, as you previously testified.

Mr. HENDERSON. Mr. Greene, you heard the question, I think, that I asked Mr. Humphrey.

The CHAIRMAN. Do you recall the question?

Mr. GREENE. I think I recall the question.

Mr. HENDERSON. Is that the way you understand, as far as your company is concerned, this nominal base price was arrived at in those years?

Mr. GREENE. Yes. If I understand correctly, you asked him about the '32 price, why it stayed. I know in our case that our customers much preferred to get relief in volume rather than in price, and they readily agreed to maintaining a higher price under their contract and asking for no help there, if we would give them relief in volume.

Mr. HENDERSON. And then you negotiated from that base on anything else?

Senator KING. Frequently above the base, and sometimes below?

Mr. GREENE. Never above the base.

Mr. HENDERSON. Mr. Patrick Butler?

Mr. PATRICK BUTLER. Our general procedure was the same. We gave relief in tonnage, mostly, and sometimes gave relief in price.

Mr. HENDERSON. Mr. Humphrey testified that there were frequent discussions as to this matter, and that is how it happened to get to this fixed price through all these years.

Mr. HUMPHREY. I didn't say that that is how it happened. I said I had a number of discussions and we finally decided what we would do.

Mr. HENDERSON. And I asked you if that is how we explained this, and I think the answer given was yes.

Mr. HUMPHREY. I didn't think, Mr. Henderson—or, if that is what I said, it was not correct.

The CHAIRMAN. This is a matter of implication. Will the reporter please read the questions and answers?

(The series of questions by Mr. Henderson and answers by Mr. Humphrey immediately preceding the chairman's last question of Mr. Greene was read by the reporter.)

Mr. HUMPHREY. That was your suggestion, Mr. Henderson, not my answer.

Mr. HENDERSON. You said that went along from year to year.

Mr. HUMPHREY. These discussions; yes, sir; and this method of doing business.

Mr. HENDERSON. Did that method have an effect on what turned out to be the continuance of the Lake Erie price from year to year?

Mr. HUMPHREY. I don't understand.

Mr. HENDERSON. I am referring now to these conversations which you have from time to time on tonnage and prospects, and so forth, and I was asking you if those had something to do with the fact that this price in this period from '29 to '37 turned out to be exactly the same price, as far as the contract price is concerned?

Mr. HUMPHREY. The conversations we had with our customers eventually resulted in our agreeing on a price with them which was the same base price year after year, and from which variations were made.

Mr. HENDERSON. Well, the question I asked, did the conversations have anything to do with the fact that this coincidence took place in the continuance of that year-to-year, exactly the same, price?

Mr. HUMPHREY. It was as a result of the conversations we had with our customers that we finally made a deal with those customers.

Mr. HENDERSON. Well, how about these discussions you have with your competitors? Did they have anything to do with the fact that this uniform price continued in that period?

Mr. HUMPHREY. No; when we finally have to make a sale to a customer, it is our agreement with that customer that settles it.

Mr. HENDERSON. But do you know how the first substantial contract in these years was negotiated?

Mr. HUMPHREY. No, I do not.

Mr. HENDERSON. And you don't know anything at all——

Mr. HUMPHREY (interposing). Some of them, I don't recall each one now. I knew at the time.

Mr. HENDERSON. Have you had any discussions with your competitors about the desirability of that uniform base continuing?

Mr. HUMPHREY. Well, I don't know what effect my conversation might have on them, but I do know that when you finally make a sale that it is the conversation between you and your customer that settles the matter.

The CHAIRMAN. Mr. Humphrey, what puzzles me about it is simply this, that looking at this chart one finds that there were only two variations in the base price. In the period from 1925 to 1939, that is to say, during 14 years there were only two changes in the base price. I am reminded of the fact that when the discussion was opened by a question directed by Mr. Feller at Mr. Hoyt, Mr. Feller asked him if it were not a fact that the Lake Erie base price was determined by the first substantial chance sale in each year, and Mr. Hoyt objected to the use of the word "chance," and I think with apparently very good reason, when one looks at the chart. Now how does it come that through this period of 14 years there is an absolute uniformity of the base price if that base price depends upon conversations year by year, or contracts at the opening of each season?

Mr. HUMPHREY. Suppose you are my customer, and we are negotiating for the sale of ore this year, and I say to you, "Now we will start

with last year's base price, which was $5.95." That is the base from which we start. Now you owe me the obligation of taking from me a substantial tonnage of ore. You can't comply with that. I say to you, "Well, we will adjust for iron content and I will make you an allowance of 25 cents from the base price provided you will take 150,000 tons this year; if you will only take 100,000 tons, I won't allow you anything." But if you would take 250,000 I might allow you 35 or 40 cents, and after negotiations and discussion we finally settle on a tonnage that you can take at a price that you will pay. That all comes from the same base price.

The CHAIRMAN. Last year's base price?

Mr. HUMPHREY. And then that would become this year's base price.

The CHAIRMAN. Now then, your conversations are independent from the conversations that Mr. Hoyt has, I assume?

Mr. HUMPHREY. Entirely. Mine are with my customers.

The CHAIRMAN. And his are with his customers?

Mr. HUMPHREY. That is right.

The CHAIRMAN. Although from time to time you gentlemen among one another may discuss price, may you not?

Mr. HUMPHREY. The price may go higher or lower or what conditions are, what justifications there might be for increasing or decreasing.

The CHAIRMAN. There is that possibility, that that has happened?

Mr. HUMPHREY. It has happened.

The CHAIRMAN. Yes; now then, if there are six different ore sellers—acting independently with these conversations with consumers—and the base price is made by the first substantial sale, how does it happen that during all of this period there was such a degree of uniformity, although the first substantial sale might have been made by any one of the six?

Mr. HUMPHREY. Well, they could start with that same base and arrive at a different answer than you and I arrive at.

The CHAIRMAN. Of course, they could.

Mr. HUMPHREY. That is the way in the last analysis the ore moves on.

The CHAIRMAN. You see what you are telling us is, or at least the implication that I get from what you say is, that this price is determined normally and naturally by conversations that take place each year?

Mr. HUMPHREY. That is correct.

The CHAIRMAN. And it is difficult for me to understand how there could be such absolute uniformity if there were not some permanent factor entering into this matter which actually determines the result, because here we have one rise in 1929, another rise in 1937, and except for those two rises it was uniform and the rises were uniform.

Mr. HUMPHREY. Well, you see from 1932 on it was a compromise each year.

The CHAIRMAN. I beg your pardon; my attention was diverted.

Mr. HUMPHREY. From 1932 on it was a compromise each year.

Mr. FELLER. Mr. Chairman, I should like to introduce a letter which might be helpful in this situation. Mr. Patrick Butler will look at this, please? Will you identify that as coming from your files?

M . PATRICK BUTLER. Yes.

Mr. FELLER. May I have it, please?

Mr. PATRICK BUTLER. Yes; I want to make myself familiar with it.

Mr. FELLER. The letter is dated April 10, 1934, signed by Mr. Patrick Butler, addressed to Mr. Emmett Butler. The letter reads as follows:

> I saw Hoyt yesterday at which time he told me the ore magnates had decided to retain last year's market price. This price will be held regardless of what Ford does. We mailed our bid to Ford yesterday as did the others.
>
> Hoyt says Pickands-Mather hope to take their minimum from us of 200,000 tons plus all the stockpile which we figure to be 117,000 tons.
>
> Archibald is to be in Detroit the last part of this week and I am holding myself in readiness to meet him there.

I offer this for the record.

The CHAIRMAN. The letter may be received.

(The letter referred to was marked "Exhibit No. 1369" and is included in the appendix on p. 10441.)

Mr. HENDERSON. Mr. Hoyt, did you ore magnates get together that year and decide to attain last year's market price?

Mr. HOYT. It is the first I heard of it, Mr. Henderson.

Mr. HENDERSON. Do you have a practice at all of discussions of any kind as to what that price would be?

Mr. HOYT. I haven't any doubt, Mr. Henderson, that we have had many discussions on all the factors that enter into price in the hope that we can get, or could get during that period, the ore industry straightened out to a point where we could run on a normal basis and make some money. Now I had talked with Mr. Butler very often about the ore price situation.

Mr. HENDERSON. And the other gentlemen here?

Mr. HOYT. Very generally with the other gentlemen.

Mr. HENDERSON Wouldn't it be the natural thing, Mr. Hoyt?

Mr. HOYT. May I just finish, Mr. Henderson?

Mr. HENDERSON. Pardon me.

Mr. HOYT. Because with Mr. Butler, it has been testified to he has sold Pickands, Mather, and while it wasn't testified to until I mentioned it today, Bethlehem Steel, a large tonnage of ore over a long period of time. I am naturally in a position with Mr. Butler in that instance of a purchaser, not as a seller, and I am arriving at a fair price with him on the basis of adjustment in tonnage as against the requirements. Now to say that I have never discussed with any of these gentlemen here whether we hoped we could get a higher price or not, that would be ridiculous; of course I have.

Mr. HENDERSON. That would be a natural thing to do in the situation with which you are confronted, with a very low tonnage and large stocks.

Mr. HOYT. And with tremendous carrying charges which for 2 or 3 years were pretty serious matters to a number of the people interested in ore. I have without any question, if there was any place where someone else had a contract with the same person I had, I might say, "Well, who can get the best deal out of this?" I might very easily do that.

Mr. HENDERSON. Now, considering the trade's seasonal character, there is most certainly an advantage in having a stable base when the continuing price is made within a few short weeks about May, is there not?

Mr. HOYT. Unquestionably.

Mr. HENDERSON. It would be the normal thing, would it not, in a time of great uncertainty, that you would prefer to have something stable on which you could tie?

Mr. HOYT. Oh, absolutely.

Mr. HENDERSON. And wouldn't it be natural, then, that you would by conversations about prospects and the like, let it become known to your competitors and they would probably let it become known to you, the desirability of having last year's base retained, and then negotiating up and down the ladder?

Mr. HOYT. I can't agree with that, because, Mr. Henderson, there are many times when these ore contracts, and perhaps there is some difficulty, Senator, in your interpretation of a sale. Now my contention is that during this period from '30 to '31 to '36 to '37, there were practically no new sales on account of the fact that the ore business was in a condition of stagnation. What I mean by a sale, either spot or contract, is an adjustment of a contract already in effect. In other words, I would negotiate with a customer of mine not for a new contract, but on a contract that I already have in effect, and see what price he will pay me for that. I don't know whether that clears up that fact of what we mean by first substantial sale.

Mr. HENDERSON. It would still be of advantage to know what the base is. Let me put it this way. If there had been a lower base which would have reflected the changes in volume and what the inventory was, it would have seriously affected your contracts. You would have had a lower base from which to negotiate, would you not?

Mr. HOYT. Right; that is correct.

Mr. HENDERSON. So you are interested in what that price gets to be?

Mr. HOYT. I am interested, Mr. Henderson, in getting the very highest price I can for the material that was shipped from the mines in which I have an interest.

Mr. HENDERSON. That is a legitimate interest; yes.

Mr. HOYT. Now when you take in a normal year 85 percent of the ore, as near as can be estimated, in the Lake Superior district, goes directly from mines to consumers who own the ore either directly or through interests of mining companies, and then you come into a year like '32 or '33, you can easily see that there is practically no ore which is subject to what you have called spot sales. In other words, what the volume is is left entirely subject to negotiation as between the buyer and the seller on his long-time contract.

Mr. HENDERSON. Now this committee—one of its principal tasks, as I see it, is to undertake to get an explanation of how prices are made?

Mr. HOYT. Yes, sir.

Mr. HENDERSON. Because they seriously affect the whole industrial activity. Now here is a price which runs directly counter to the behavior of prices during that whole period. It certainly ran entirely different from the price of finished steel in that period.

Mr. REYNDERS. May I make a comment in regard to that? There was this difference in the price range, but I think we should bear in mind that these people were selling a diminishing asset; in other words, they have a minimum which sooner or later will be exhausted. Now it is up to them to determine whether they are willing to dispose of a diminishing asset here on a basis of a dropping market, as is indicated in the finished steel prices.

Mr. HENDERSON. The behavior of this price in that period differs very much from that of prices of other things, such as copper, which have the same characteristics you mention. What I am saying is, we are not so much interested in whether there was a concert of agreement or whether there was anything shady in the transaction. What we are trying to find out is what was responsible for the uniformity of the base price in that period since price is of such material importance in industrial policy. I suggested to you that it would be the most natural thing in the world, since you have a definite interest in the price being the same or a little higher, that there be conversations current among your competitors as to the desirability of keeping the price at about the same level. I also suggested that probably these discussions are responsible for the fact that the first negotiated contract each year came out exactly as it was the previous year. Now is that incorrect?

Mr. HOYT. Well, I would say the way you state it it was incorrect, but it could easily happen, Mr. Henderson, that out of one or two conversations that sort of thing might be arrived at, but I think the point that you are overlooking really, when you compare it with copper or pig iron or steel, is what we have tried to explain about the difficulty of this iron ore business being tied up to a lake shipment.

Mr. HENDERSON. And these long-term contracts?

Mr. HOYT. And going down through the Lakes.

Mr. HENDERSON. And these long-term contracts needed adjustment?

Mr. HOYT. I am not commenting on that now; I am commenting on the seasonal nature of the business where a consumer negotiates or settles, if he has his own ore, on his requirements for a year ahead of time, not from month to month or day to day or week to week, but a year ahead of time. Now take for example, Mr. Henderson, in '37. They brought down 63,000,000 tons of ore in '37. The consumer of the ore, the average consumer, expected the rate of steel operation to continue through that year at the high rate it was going the first 4 or 5 months. He had no indication, at least according to the general information available, that there was going to be a slump. Therefore he wasn't really figuring on a year's supply of ore; it turned out he was figuring on a 2 year's supply of ore because he got it down—the slump came so late that he got the ore down before he had time to stop it; therefore he had that accumulation.

Mr. HENDERSON. But the prospects in all these other years were different from that year, and I am suggesting that if they were different during that short compressed period for making contracts, and if they followed these factors you suggest, the price would have been, as I said before, some jot or tittle change?

Mr. HOYT. There were no sales during that period in the sense that you sell copper or pig iron or steel, from day to day. It was practically the actual fact, Mr. Henderson, that this ore was just accumulated from the '31 period and had just hung over the steel industry like a tremendous burden. Now——

Mr. HENDERSON (interposing). That is the reason why I suggested that even with those conditions in any other commodity there would have been some change.

Senator KING. May I ask one question of Mr. Humphrey? You stated in giving your description of that apparent uniformity that

there were concessions made, and were not those concessions—did not those concessions amount to a considerable deviation from a straight line in the ultimate cost to the buyer and the ultimate return to the seller?

Mr. HUMPHREY. That is exactly correct.

Senator KING. So that it wouldn't be a uniform line so far as the seller was concerned?

Mr. HUMPHREY. That is exactly right. That is what I tried to explain.

Senator KING. When he made those concessions that line would exhibit many variations?

Mr. HUMPHREY. The actual cash paid by the buyer for the ton of ore to the seller was not a straight line.

Senator KING. Would it in some instances materially depart in a straight line?

Mr. HUMPHREY. I think so.

Senator KING. Were there concessions each year during that period and modifications and changes from the base line?

Mr. HUMPHREY. Yes.

Senator KING. Speaking of your own business?

Mr. HUMPHREY. Yes.

Mr. O'CONNELL. May I ask one question to be sure I understand this? Do I understand that in the year 1933 that if you sold any given quantity of 51.50 non-Bessemer ore, that it would not follow this line quite closely?

Mr. HUMPHREY. When we settled with a customer under our contract in one of those years, the contract might—one contract might be on the basis of that line. They would start from that line and then they would vary, depending upon the allowances or the premiums or the penalties that were involved in the contract that changed the price from that line.

Mr. O'CONNELL. But assuming that there was no penalty or premium?

Mr. HUMPHREY. They are in all contracts.

Mr. O'CONNELL. Always penalties and premiums?

Mr. HUMPHREY. Always penalties and premiums.

Mr. O'CONNELL. It would result in a substantial character of this line if we were to take your prices and compare them with a particular kind of ore of another company, selling the same type of ore.

Mr. HUMPHREY. I don't know what would happen in another company, but you would see that our prices would vary.

The CHAIRMAN. I understood Mr. Humphrey to testify in response to my inquiries that when these unusual factors of difference are eliminated and the price is based upon the usual factors of advance, the percentage of iron content, for example, the lines would approximate this line.

Mr. HUMPHREY. If there were no unusual variations.

The CHAIRMAN. Eliminating the unusual variations.

Mr. HUMPHREY. But in most cases there were those other variations.

Senator KING. In view of the variations which occurred, which you stated would result in a departure from the straight line, would you say that those variations, plus the conditions which prevailed, and the conduct of the various parties, the buyer and the seller, amounted to competition?

Mr. HUMPHREY. It was very definite competition.

Senator KING. So you would say you were then in the competitive market in the selling of your ores?

Mr. HUMPHREY. We were in a competitive market all of the time in the sale of our ores; not only were we competing with other sellers of ore, but in many instances we were competing with our customers' own production of ore. In other words, your customer himself, in many instances, owns ore and if he is to buy ore from you, you must agree on a price with him that makes it more attractive for him to buy your ore than to mine his own.

Senator KING. Then he would pay less for your ores, when he had ores to sell of his own he would want to market his own ores first.

Mr. HUMPHREY. He may not be a seller, he may just mine for his own consumption but he may mine for only a portion of his own consumption or for all of his own consumption, depending upon what he does.

Mr. HENDERSON. Mr. Chairman, I want to ask Mr. Patrick Butler a question.

The CHAIRMAN. May I ask you to wait a moment until I clear this up?

Mr. Humphrey, I understood you to testify that this base price is fixed from year to year largely by the conditions which you have, so far as you are concerned, with your consumers.

Mr. HUMPHREY. Well, it may be that it is however—if we agree with our customer on a base and get cleared first, then that becomes the base that is published.

The CHAIRMAN. Yes; but that is done from year to year.

Mr. HUMPHREY. Maybe somebody else does it and we start in our negotiations with our customer from a published base.

The CHAIRMAN. I didn't mean to say you were the leader or anything of the kind.

Mr. HUMPHREY. Sometimes it is one and sometimes the other.

The CHAIRMAN. But it is done from year to year.

Mr. HUMPHREY. That is right.

The CHAIRMAN. Now, Mr. Hoyt, in explanation of the uniformity of this line explained, as I understood him, that the iron ore industry was in such a condition due to the falling off of activity in the steel industry that a large volume of ore was overhanging the market and that there were not actually annual sales?

Mr. HOYT. That is correct.

The CHAIRMAN. Now are the two statements in harmony with one another?

Mr. HOYT. Yes, sir; because I explained, Senator, that from our point of view an annual sale or an adjustment of a long-time contract which I had in effect, we will say at the start of this period—in other words, suppose I had sold one of these steel companies a very large tonnage of ore, we will say, over a 10-year period and I was in the second year of the 10 years, I had to go and work just as hard on that customer to arrive at a price under that long-time contract as if I was making a new sale.

The CHAIRMAN. But at a final price?

Mr. HOYT. All right; but my contract, for example, says that he will take the ore forward at, we will say, 50 cents below the published

base price, so when he says to me, "Alright; I will take this ore this year at 50 cents below the base price," I have no hesitation in telling the newspaper man who comes around that I have made a sale at that price, because the long-time contract is based on it. It takes into consideration the fact that I as a seller have a minimum where I have to spend over a period, we will say of 5 or 6 years, a large amount of money to develop it. I don't want to take the risk, if I am subject just to sale from year to year, so I go to him and say, "If you will take from me so much ore each year for a period of years, I will give you 50 cents off the base price."

The CHAIRMAN. Now, when you say to your customer that you will give him so much off the base price, and you do that year by year in fixing the actual return that you get for the sale of your ore, I can understand that as explaining the eventual price which you receive, but I can't understand it as an element in fixing the base price, because you begin with an assumption of the base price, the determination of which, the method of determination of which, is the precise question that I am trying to get an anwer to.

Mr. HOYT. I have given you the answer as I see it, Senator.

Mr. HENDERSON. Do you tell your customer how that base price is going to be arrived at?

Mr. HOYT. I go down there and I tell him frankly and I say, "Now, listen: I want to get under the conditions this year the best price I can," and he says, "Well, I have a great inventory of ore here and I don't want to take any," and we come to an agreement, and finally he says to me, "All right, you let me off some tonnage, and I will pay you the same price I paid you last year," which is $4.50, we will say, but 50 cents under the base price. Now it has been customary in the trade that that kind of negotiation establishes the base price. I can't tell you more than that. That is just the custom. It is done.

Mr. HENDERSON. I want to ask, Mr. Patrick Butler, do you recall the circumstances under which you wrote this letter of April 10, 1934? [1]

Mr. PATRICK BUTLER. No; I can't recall that definite conversation. I have been in personal contact almost personally for 15 years, and that particular one doesn't come to mind.

Mr. HENDERSON. This particular one to the effect that the ore magnates would decide whether or not they would retain last year's market price?

Mr. PATRICK BUTLER. Definitely I did not mean that the ore magnates got together and decided on the price. That is shorthand conversation from one person that knows how the market price is arrived at, to another person that is familiar with how the market price is arrived at. I meant in that case, if I was going—if I were writing a letter to you, Mr. Henderson, I would say that the negotiation between the ore concerns and their customers have not developed into setting a price for this year, or it has in this case of this letter.

Mr. HENDERSON. Yes; but there would have to be some basis for that decision. How do you understand that the retention of the same price is decided? Is it Mr. Hoyt's version or Mr. Humphrey's version?

Mr. PATRICK BUTLER. I didn't see any difference between their versions.

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[1] Referring to "Exhibit No. 1369", appendix, p. 10441.

Mr. HENDERSON. You didn't see any difference in their versions?

Mr. PATRICK BUTLER. The market price, as I understand it, is arrived at by the negotiation of the iron-ore producer and the consumer.

Mr. HENDERSON. Well, it was said in one case it was the current year's base price, and in the other case it was said it was last year's base price.

Mr. PATRICK BUTLER. I don't follow that difference.

Mr. HENDERSON. And then it turns out that all the contracts are on a uniform base.

Mr. PATRICK BUTLER. It might be for the current year or it might be the current price for the contract that took place over a term of years.

Mr. HENDERSON. I understand your testimony is that this means something different to your dad, to whom it was addressed, than it does to me?

Mr. PATRICK BUTLER. I would think so; yes. That letter, the implication or the idea that you would get from that letter would be that the ore producers, the large ore producers, get together.

Mr. HENDERSON. Don't avoid that word "magnate," Mr. Butler.

Mr. PATRICK BUTLER. The ore magnates got together and established the price. That would be the thought that you would derive from it. I am under no impression, or I don't believe my father is, that the ore magnates get together and establish the price of ore. It must be on the face of it a subject of negotiation, not between ore magnates, but between ore magnates and their customers, not as between themselves.

Mr. HENDERSON. Suppose a competitor wanted to establish a lower base price that year and you rushed some tonnage down on the first negotiated contract, and you made a lower base price. That would affect every one of your competitors, wouldn't it?

Mr. PATRICK BUTLER. I would think so; yes.

Mr. HENDERSON. That never takes place, does it? It didn't take place in all those years.

Mr. PATRICK BUTLER. I have never wanted to establish a lower price for iron ore.

The CHAIRMAN. Do you ever establish the price?

Mr. PATRICK BUTLER. Not that I know of.

Mr. HENDERSON. I can understand that. You might want to move your tonnage as other industries do, and therefore make a variation in price. What I am suggesting is that this particular base price doesn't act like other prices in a competitive order.

Mr. PATRICK BUTLER. I think you are right when you say that; the base price doesn't vary as the price of other commodities; no.

Mr. HENDERSON. But the actual price arrived at revolves around that line.

Mr. PATRICK BUTLER. It is based on that line. It is a base price.

Mr. HENDERSON. And therefore if that line is high or low, the revolution around it will tend to be high or low.

Mr. PATRICK BUTLER. I would think that is correct.

The CHAIRMAN. Mr. Hoyt, when does the season open?

Mr. HOYT. On the average, May 1, Senator. Sometimes in April, if it is a very early spring. But over a period of years you can depend on the season opening about May 1.

The CHAIRMAN. Would you care to make any comment on the fact that according to this letter Mr. Patrick Butler wrote to his father on the 10th of April in such a manner as to assume that the price for that year had already been fixed, though the season was not yet open?

Mr. HOYT. These discussions, Senator, as to ore requirements, may start in January or February, as far as that goes. It depends on the kind of year it is, and whether there does look to be an increase in volume. Then they start to figure much earlier.

The CHAIRMAN. Bearing in mind that on the average the season opens on about the 1st of May, bear in mind that the uniform testimony here has been that the base price is fixed by the first substantial sale after the season has opened——

Mr. HOYT (interposing). No, sir; not after the season has opened. That is not in the testimony. At least I never said that, and I haven't heard it said. Not after the season opens.

The CHAIRMAN. The first substantial sale of the season.

Mr. HOYT. It might be made in January; yes, sir.

The CHAIRMAN. Might be made in January.

Mr. HOYT. I don't know that it has ever been made that early, but it might be made.

The CHAIRMAN. Let's read the first sentence of Mr. Butler's letter. [Reading from "Exhibit No. 1369"]:

> I saw Hoyt yesterday at which time he told me the ore magnates had decided to retain last year's market price.

That seems to me to refer to a future act, to a condition that would arise in the future, and not to a matter which had already been closed Do you think that is a justified interpretation of the sentence?

Mr. HOYT. Senator, I don't know anything about Mr. Butler writing to his father, and how he does it or anything of that kind, but may I ask this question? Do you think that this distinguished group here could sit in a room and decide that the steel companies, and a great many of them, will pay them a fixed price for the ore?

The CHAIRMAN. I am not making that implication at all.

Mr. HOYT. That is really what it amounts to, as far as I can see.

The CHAIRMAN. No, no. I wouldn't want you to think that I had had that in mind at all.

Mr. HOYT. Mr. Henderson's question led me to believe that.

Mr. HENDERSON. I am saying this, that there is something very unusual about the situation.

Mr. HOYT. We tried to explain it to you, Mr. Henderson, on this whole general situation.

Mr. HENDERSON. You have explained to me how the actual price gets made, but you haven't explained to me satisfactorily how that particular contract, that Lake Erie rate, turned out to be exactly the same every year.

The CHAIRMAN. If it is satisfactory to the committee, we will recess until tomorrow morning at 10:15, and then perhaps we will take this matter up with clear minds.

(Whereupon, at 5 p. m., the committee recessed until the following day, November 3, 1939, at 10:15 a. m.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

FRIDAY, NOVEMBER 3, 1939

United States Senate,
Temporary National Economic Committee,
Washington, D. C.

The committee met at 10:30 a. m., pursuant to adjournment on Thursday, November 2, 1939, in the Caucus Room, Senate Office Building, Representative B. Carroll Reece presiding.

Present: Representative Reece (acting chairman); Senator O'Mahoney (chairman); Representative Sumners (vice chairman); Senator King and Representative Williams; Messrs. Henderson, Avildsen, O'Connell, and Brackett.

Present also: Gordon Dean, representing the Department of Justice; John V. W. Reynders, representing the Department of Commerce; A. H. Feller, special assistant to the Attorney General; John W. Porter, Irving Glickfeld, Hyman Ritchin, Ward S. Bowman, and Monroe Karasik, Department of Justice.

Acting Chairman Reece. The Committee will please come to order. Are you ready to proceed, Mr. Feller?

Mr. Feller. Mr. Chairman, I should like to call the witnesses who were testifying when we recessed yesterday.

TESTIMONY OF E. B. GREENE, PRESIDENT, CLEVELAND-CLIFFS IRON CO., CLEVELAND, OHIO; ELTON HOYT II, MANAGER AND PARTNER, PICKANDS, MATHER & CO., CLEVELAND, OHIO; GEORGE M. HUMPHREY, PRESIDENT, M. A. HANNA CO., CLEVELAND, OHIO; EMMETT BUTLER, PRESIDENT, AND PATRICK BUTLER, BUTLER BROS., ST. PAUL, MINN.; CRISPIN OGLEBAY, PRESIDENT, OGLEBAY, NORTON & CO., CLEVELAND, OHIO—Resumed

IRON ORE PRICING

Mr. Feller. Mr. Chairman, yesterday afternoon there was some discussion as to the significance of the Lake Erie base price for ore. I think it is pertinent to read into the record at this time a paragraph from a letter sent by Mr. Irving S. Olds to Mr. Thurman Arnold, Assistant Attorney General, dated August 31, 1939; Mr. Irving Olds being counsel and director of the United States Steel Corporation. The paragraph which I will read indicates the basis on which the Oliver Iron Mining Co., the largest operator of iron mines in the country and a wholly owned subsidiary of the United States Steel Corporation, bills other subsidiaries of the United States Steel Corporation for ore

The letter reads as follows:

The Oliver Company bills in the constituent steel manufacturing subsidiary ores delivered for their account at the established Lake Erie base price less certain structural and shrinkage allowances. In determining the actual price of any particular grade of ore an adjustment up or down from the base price has to be made on account of variables for iron phosphorus, and a penalty is applied to high silica ore.

In this connection the Oliver Company is subjected to a penalty amounting to seven and one-half cents per unit of silica in excess of 10 per cent dry silica. The prices thus arrived at, and at which the ore is so billed, are therefore the published Lake Erie prices, and such prices are entered upon the books of the company as the selling price of the ore.

That is the end of the quotation from Mr. Olds' letter.

I think it will appear, therefore, that the published Lake Erie base price is, at least in the operation of the United States Steel Corporation, a significant factor in the cost or selling price of steel, and if you will refer to the booklet which was introduced at the beginning of the hearing, you will see that approximately 2 tons of ore are used in the production of 1 ton of steel.

Mr. Oglebay, could you identify this letter, please, as coming from your files? It was written by Mr. Hilton, vice president of the Steel Co. of Canada, and addressed to Mr. Bourne of your company.

Mr. OGLEBAY. Yes; I do.

Mr. FELLER. I should like to read this letter for the record. I don't think it will be necessary to print it as an exhibit. It bears the heading, "Ore Prices," and is dated May 2, 1939. [Reading:]

I have been going to write you about the iron ore price structure since last season's prices were reaffirmed this year. We are frankly quite disappointed as these prices seem to us higher than any level which current business conditions will justify. There does not appear to be any possibility of a general increase in price of finished steel. In fact, the sporadic outbreaks of price cutting from time to time would indicate the contrary might be expected. Sales of merchant iron are dwindling year by year in proportion to the decreased gray iron foundry melt. We are in this position. Unlike the majority of United States Steel producers, a relatively small proportion of our total ore requirements comes from ownership properties. It is true that, on the other side of the ledger, we do not have the investment in ore properties which the other companies have. Our purchases of ore have, in the main, been covered by long-term contracts, but since these are based on fixed differentials of some kind below the prevailing season market prices, this does not help a great deal if the season prices are maintained at fictitiously high levels.

In this connection could you give me any estimate of the amount of ore which is sold on some basis predicated upon the open market price during a typical season? I would expect that only a very limited portion of the total season movement would fall into this category.

On the other side of the picture, we have to compete with United States producers, and the type of competition existing in the steel trade in the U. S. at the present time is making itself felt here continually, as in a number of lines we are forced to compete on a duty-free basis. Many of these American producers, of course, draw the bulk or all of their iron ore supplies from ownership properties, some of which at least enjoy very advantageous costs. Frankly, we believe that, in any kind of open competitive buying, the price level for iron ore would be substantially below the levels set for this year's market prices.

We are further of the opinion that, should any substantial lowering of price levels for steel products occur, the question of the established market price for Lake Superior ores ought to be reconsidered in the light of such a condition.

We would be very much interested in the views of your company regarding the foregoing.

The letter is signed "H. G. Hilton," who is, as I stated before, vice president of the Steel Co. of Canada, Ltd.

Mr. Oglebay, I should like to ask you whether you agree with two of the remarks made in this letter. One is the remark that season prices are maintained at fictitiously high levels. Would you care to have the letter?

Mr. OGLEBAY. No; I don't.

Mr. FELLER. Do you agree with that remark?

Mr. OGLEBAY. I had better answer that as I see it, in the way in which we answered it to Mr. Hilton.

Mr. FELLER. Would you tell us that, please?

Mr. OGLEBAY. This contract calls for delivery of 150,000 tons of ore per year, and he was asking us to ship this year somewhere approximating a minimum of 50,000 tons and, as a maximum, 75,000 tons. Others to whom we were to ship ore from this mine also were requesting us to ship far less ore than their contracts called for. This placed the mine in a position where the production would not meet its cost. So we said to Mr. Hilton that in using the yardstick of this price, as of 1939, we thought we were perfectly fair, in that that in itself, the price that we would get from him for the ore would hardly allow us to pay expenses at the mine.

(The vice chairman assumed the Chair.)

Mr. OGLEBAY. That is the answer that we made to Mr. Hilton.

Mr. FELLER. What about the word "fictitious"? Would you say that the market price is fictitious, either at a fictitiously high level or a fictitiously low level?

Mr. OGLEBAY. I have the feeling that this is not a market price as applied to our office, and I will have to look at it from that point of view. We use the Lake Erie selling price with some of our long-term contracts, including the contract with the Steel Company, of Canada.

And in the last 7 or 8 years those who had contracts with us have asked for adjustment in shipping from the mine that did not allow the mine to produce sufficient ore to hardly carry it, so that as a yardstick applying to our office I would say that price was not too high, but probably too low, in fairness to the effect it had on our costs.

Mr. FELLER. What I asked you was whether you thought the price was fictitious. I understood you to say that the price had relatively little significance so far as the transactions of the ore business are concerned. Isn't it a fact that in those contracts which are related to the Lake Erie base price, or the market price, like the contract with the Steel Company, of Canada, the contract provides for a price which bears a fixed relationship to the market price; that is, so many percent off the market price?

Mr. OGLEBAY. That is right; yes.

Mr. FELLER. Consequently if the market price were to go down the buyer, the consumer of the ore, would have to pay less, would be able to pay less, would he not, as the market price varied?

Mr. OGLEBAY. That is true.

Mr. FELLER. In other words, then, the market price does have very definite significance in connection with such a contract.

Mr. OGLEBAY. It does from one point of view, but from the other point of view this company was not taking all the ore that was called for in the contract and they were asking us for an adjustment downward for less in quantity than they were obligated to take, thereby increasing our costs. It was not necessary for us to accept this price

or any other price. We could, of course, adjust on probably some other base, because they did not want to fulfill their contract for the delivery as called for in the contract.

Mr. FELLER. Was there such an adjustment made?

Mr. OGLEBAY. Yes; there was.

Mr. FELLER. What was the adjustment?

Mr. OGLEBAY. Oh, you mean the price?

Mr. FELLER. Yes.

Mr. OGLEBAY. No; we accepted the price as of 1938.

Mr. FELLER. Mr. Patrick Butler, I should like to refer back——

The VICE CHAIRMAN (interposing). Wait, if you don't mind. Is it in the record with reference to the adjustment, the details of the adjustment in regard to quantity delivery, quantity acceptance? I have heard some testimony about it, but is it in the record?

Mr. FELLER. The record contains statements by several of the witnesses.

The VICE CHAIRMAN. No; I mean this witness. Unfortunately I just got in. This witness testified that the contract which he had with his purchaser was not complied with because the purchaser did not take quantity according to contract. I understood this witness to say that there had been some adjustment but not as to price I was asking if it was clearly in the record as to what adjustment is made as to quantity acceptance.

Mr. FELLER. No; the record does not contain the exact amount. Could you state that, Mr. Oglebay?

Mr. OGLEBAY. We accepted the price as of '38.

The VICE CHAIRMAN. You have been testifying that there was some failure on the part of the purchaser to receive ore from you according to the contract.

Mr. OGLEBAY. Well, in my testimony what I wanted to imply was that we had the privilege——

The VICE CHAIRMAN (interposing). No; I am asking you——

Mr. OGLEBAY (interposing). No; we did not, we accepted——

The VICE CHAIRMAN (interposing). You didn't answer my question. I asked you what adjustment you made with regard to quantity delivery.

Mr. OGLEBAY. We made none. We accepted their shipping schedules which were less than the contract called for.

The VICE CHAIRMAN. I am asking you what was that difference.

Mr. OGLEBAY. Their contract called for the delivery of 150,000 tons.

The VICE CHAIRMAN. How much did you accept?

Mr. OGLEBAY. They took 75,000.

The VICE CHAIRMAN. That is what I have been trying to get in the cord.

ESTABLISHMENT OF THE BASE PRICE

Mr. FELLER. Mr. Patrick Butler, I should like to revert to the letter which was introduced at the close of yesterday's session.[1] As you recall the first paragraph of that letter reads as follows:

> I saw Hoyt yesterday at which time he told me the ore magnates had decided to retain last year's market price. This price will be held regardless of what Ford does. We mailed our bid to Ford yesterday as did the others.

[1] "Exhibit No. 1369", appendix, p. 10441.

That is the end of the quotation. Now, Mr. Butler, considerable discussion was had yesterday with respect to the first sentence. I should like to ask you with respect to the following two sentences. What did you mean by the statement: "This price will be held regardless of what Ford does." I take it that "Ford" refers to the Ford Motor Co. which is a large buyer of iron ore.

Mr. PATRICK BUTLER. That is right. Will you read that sentence?

Mr. FELLER (reading):

This price

that is to say last year's market price

will be held regardless of what Ford does.

Mr. PATRICK BUTLER. That to my mind means that regardless of what Ford does—what price Ford pays for his ore, the published market price would remain the same as it had in previous years.

Mr. FELLER. Now I take it that the custom in the industry, as has been testified to yesterday, is that the price at which the first substantial sale of the season is made becomes the Lake Erie base price. I take it from your testimony that if the Ford Motor Co., by virtue of its bargaining position, were to make the first substantial purchase of the season at a price less than the preceding year's market price, that the industry would not recognize that as the established Lake Erie base price.

Mr. PATRICK BUTLER. I don't know that to be a fact—whether the industry would recognize it as the first substantial sale and set the market price, set the Lake Erie price.

Mr. FELLER. What other meaning could your answer to my previous question have? Your answer was that the last year's market price would remain the market price regardless of what Ford did.

Mr. PATRICK BUTLER. The only deduction I can make is that there would be a sale prior to the Ford sale.

Mr. FELLER. Supposing Ford were the first purchaser.

Mr. PATRICK BUTLER. If Ford were the first purchaser and that price was published, that, I think, would establish the market price of the ore for that year.

Mr. FELLER. Then the market price would not be held regardless of what Ford did?

Mr. PATRICK BUTLER. It could be. If the iron ore people and their customers thought that the price that Ford paid did not reflect the economic conditions of the industry at that time, I would think they would be perfectly free to say that they would not recognize the Ford sale as binding upon them on their contracts for that year.

Mr. FELLER. Then I take it that the custom is one that could be broken very easily if the price were not suitable to the producers of iron ore.

Mr. PATRICK BUTLER. I wouldn't gather that.

Mr. FELLER. Isn't that the implication from your statement?

Mr. PATRICK BUTLER. No.

Mr. FELLER. You said that if the sellers of iron ore decided or judged that the price at which the Ford purchase had been made did not reflect the economic conditions in the industry that they would not recognize that price although the record clearly indicates

that the first substantial sale of the season is by long established custom the market price for that season.

Mr. PATRICK BUTLER. I would like to give an example of what I mean by saying that they would not have to recognize the Ford sale as the market price for that year. Suppose in one year a producer went to the Ford Motor Co. and, on account of economic conditions, he was so pressed to sell ore, I don't believe that that sale under pressure should govern the price—that comparatively small tonnage—of all the other ore brought down that year.

Mr. FELLER. How do you determine whether a sale is made under pressure or not?

Mr. PATRICK BUTLER. There are times, as far as I am concerned, when we are more anxious to sell ore than others; I mean, in other words, our burden of doing business is heavier than in other times and we are more anxious to make sales at one time than at another.

Mr. FELLER. Do you recall any given year in which the first substantial sale of the season was considered by the industry to have been a sale made under pressure and consequently the price would not be recognized for the balance of the season?

Mr. PATRICK BUTLER. I do not.

Mr. HENDERSON. Might I ask a question then?

Mr. FELLER. Yes.

Mr. HENDERSON. Mr. Butler, what do these contracts you have read have as their basis?

Mr. PATRICK BUTLER. We have two types of contracts in effect now. One of them is that a contract has a base price plus a percentage of the difference between that base price and the published Lake Erie price. That is one type. The other type of contract is based—calls for a base price plus increase for variables in labor and supplies.

Mr. HENDERSON. Suppose I had a contract with Butler Bros. of the first type, and the first substantial contract was with Ford that year and it did not get to be the first one published, what would be my contract rights with you?

Mr. PATRICK BUTLER. On the published.

Mr. HENDERSON. It would be on the published?

Mr. PATRICK BUTLER. Yes.

Mr. HENDERSON. Therefore, if under pressure you say a substantial contract was made, if it could be kept from getting published it wouldn't affect these contracts which you and other ore sellers have.

Mr. PATRICK BUTLER. It wouldn't affect the contracts that we have.

Mr. HENDERSON. Mr. Hoyt testified yesterday, I think, and I think Mr. Humphrey did, as to how this price got into a publication. I think you said, Mr. Hoyt, or maybe it was Mr. Humphrey, that after you had negotiated one of these continuing contracts you called in the press and told them about it.

Mr. HOYT. That is correct.

Mr. HENDERSON. And that becomes the published price. Do you have any general understanding in the industry—or did you have, particularly in this period when there admittedly was pressure of the over hanging volume—that no price below the previous year's base price would be published?

Mr. HOYT. Absolutely not.

Mr. HENDERSON. But you fellows pretty much have control as to whether or not the contract gets published, is that not so?

Mr. HOYT. I wouldn't say so, Mr. Henderson.

Mr. HENDERSON. Let me put it this way. Isn't that how the trade journals get the information? Do they not get it from the sellers rather than from the buyers?

Mr. HOYT. Absolutely, from the sellers but they might get it just as easily from a sale to Ford as they would from anybody else.

Mr. HENDERSON. Do you recall any year in which they did get it from Ford?

Mr. HOYT. No, sir; I don't.

Mr. HENDERSON. Do you recall any year of the years covered by this chart, '25 to '39,[1] in which the publication did not arise from information given out by one of the ore companies?

Mr. HOYT. I don't think I can answer that specifically, but my guess would be that it wouldn't—that it didn't—but I would like to explain one thing, Mr. Henderson, for the basis of this discussion. Ford Motor Co. has part of its own ore supply and buys relatively small tonnage. They always send out formal inquiries when they are about to buy ore. To be perfectly frank with you, if those inquiries come in and there is pressure on the market, as Mr. Butler has described, and I think in one of these exhibits Mr. Feller has shown that there were seven or eight other ore companies shipping in the neighborhood of a million eight hundred thousand tons, I would go to my customer and try and settle with him on a price satisfactory to him and publish it, because I don't want some chance sale on a pressure basis to settle tonnage which was from all the properties in which I might have an interest.

Now if I can't do that, if I can't arrive at anything like that, why unquestionably so far as I am concerned, I would feel that a chance sale to Ford, if it became known would set the price, the base price.

Mr. HENDERSON. But you have a little advantage in getting one of those contracts negotiated in advance of the Ford closing, have you not, and that is true of some of the other ore companies, on account of the relationship which you have as an ore company with the steel companies?

Mr. HOYT. No, sir; I wouldn't say so.

Mr. HENDERSON. You mean you think you stand in the same relationship exactly to the steel company as somebody who does not have an interest?

Mr. HOYT. That would depend on the steel company you are referring to.

Mr. FELLER. You have an interest in Youngstown?

Mr. HOYT. Yes.

Mr. FELLER. Your senior partner is also chairman of the board.

Mr. HOYT. That is correct, but we don't sell Youngstown ore; we operate the properties for them. I couldn't possibly establish a published base price on a negotiation which Youngstown had.

Mr. HENDERSON. Let me ask Mr. Greene. Mr. Greene, do you have the same procedure as far as the Ford contract or some other chance sale is concerned? Let me put it this way. You have heard Mr. Hoyt's testimony, and if you were afraid that a sale under pressure

[1] "Exhibit No. 1367," appendix, p. 10439.

to Ford might be the first of the season and might get publication and therefore be the base, would you feel it desirable to get a contract negotiated and published?

Mr. GREENE. I from my personal experience wouldn't know about that, but I think Mr. Hoyt has testified correctly on that. I don't know of that happening but I feel that we would make every effort to make a sale if we could.

Mr. HENDERSON. I think I would, too.

Mr. GREENE. And naturally at the best price we could obtain.

Mr. HENDERSON. Yes; I think I would too if I were in your shoes. Then this question I asked Mr. Hoyt as to the possibility of your concluding a contract, you would have an advantage, for example, over Mr. Butler in making a contract, would you not, on account of your ownership in some of the steel companies?

Mr. GREENE. No, I don't think so. They keep us at full arm's length. I think the relations would be perfectly friendly but when it comes to buying ore I have a pretty tough lot of buyers because I don't think there is any special consideration given us as a result of our relationship with the steel companies. I think we stand right on a competitive basis.

Mr. HENDERSON. If you stood on a competitive basis, isn't it likely that in some one of those years competition would have varied that price?

Mr. GREENE. I thought you were addressing one of the others.

Mr. HENDERSON. Let me put it another way. In any one of those years when there was pressure stock available, did you lose any contracts to the pressure group?

Mr. GREENE. I think, if I understand your question correctly, throughout that period, beginning with '31 or '32, and lasting for several years, we were under pressure to reduce the volume or the price, and we adjusted with our customers on a basis of volume, and not on a basis of price. The reason for that was that we needed the money to run. If we had to keep our mines open and run, in our particular case with a very large debt, we had to deliver some ore to run our mines and pay our men, and so we adjusted these matters in volume.

Mr. FELLER. Mr. Greene, when you speak of adjustment in volume, do you mean that for the same price you gave more ore?

Mr. GREENE. Not more ore, less ore.

Mr. FELLER. In other words, your concession was this, was it not? It was a relaxation of the term of the contracts which required the purchaser to take so much ore per year. Is the purchaser still under obligation to take that ore, the delivery of which was deferred in those years?

Mr. GREENE. That is exactly what I mean. They wanted relief and we had to have cash, and while we say we had a contract for 300,000 and they wanted to take nothing or 100, we said, "We'll let you off"—we went pretty carefully into what they needed and how much of a burden it was, and then we said, "We'll let you off, say, two-thirds or a half; the price is the same."

Mr. FELLER. We'll let you off for this year, but the extra third that you didn't take this year you will take in succeeding years in installments?

Mr. GREENE. There couldn't be said to be any standard. In some cases we just added that onto a year after the expiration of the contract. Sometimes we got an additional amount added. Each one was separate. You had to have a meeting of minds. There wasn't any standard of adjustment. Each one of us sat down and maybe spent days working this thing out. It was pretty important to us and it was fairly important to them.

Mr. HENDERSON. Because you took the practical way, rather than go on your contract.

Mr. GREENE. That is right.

Mr. FELLER. But with respect to that ore which the purchaser took in that particular year, the cost to him was exactly the same?

Mr. GREENE. As provided in his contract; yes.

Mr. HENDERSON. Well now, I didn't get the answer, Mr. Feller, to the question I asked. In any of these years, when there was this overhanging volume, did you lose any of your customers because of sales under pressure? Did you lose any of your customers that did not have a long-term contract?

Mr. GREENE. Those that didn't have a long-term contract, the conditions were so bad there were very few sales. Undoubtedly we lost some. They didn't need the ore. They had too much inventory. There is no question about it.

Mr. HENDERSON. Did you lose any to anybody else that you remember?

Mr. GREENE. I presume so.

Mr. HENDERSON. You don't know definitely.

Mr. GREENE. Yes; I could name, I think, one or two——

Mr. HENDERSON (interposing). I wouldn't ask you to name them.

Mr. GREENE. I am not familiar with the details. I have no doubt we lost customers. People took our business from us the same as they do in every other business.

VARIATIONS FROM THE BASE PRICE

Representative REECE. Some of us couldn't be here yesterday afternoon, due to the situation in the House, and in looking over the record I observe the discussions had with reference to the base price, and I gather from these discussions, and together with what has been said this morning, that the base price is not the price at which the ore is uniformly sold throughout the year, that it is adjusted in accordance with varying conditions, so that the customers actually pay a different price from what is stated as a base price. Is that correct?

Mr. FELLER. The conditions are physical conditions of the ore. In other words, the base price is a standard price which is figured on the basis of a certain iron content. Now, if there is more or less iron content, adjustment is made up or down in accordance with the amount of iron which exceeds or is less than the standard. Also there are adjustments made with respect to certain impurities in the ore. For example, if there is too much phosphorus, you pay a penalty for that. In other words, the conditions are conditions in the character of the product, physical characteristics.

Representative REECE. But are there other conditions, such as relate to the varying quantities of ore that might be taken under the contract? That is, I mean to say, conditions arising out of the acts of the purchaser, rather than the seller.

Mr. FELLER. Congressman, I take it what you mean is, are there such things as quantity discounts or differentials.

Representative REECE. Yes; from the base price.

Mr. FELLER. As appears in the record, there are two types of sales made in this industry. One is the spot sale, a sale made without a contract. You just come to the seller and you buy so much ore. As I understand it, there are no quantity differentials in this industry. Perhaps one of the witnesses might check up with respect to that. There are no quantity differentials with respect to the spot sales. Now, on the long-term contracts it was testified to yesterday that under these long-term contracts in many instances a reduction is made from the Lake Erie base price in order to give a consideration for the fact that a great quantity of ore is taken over a long time, but that deduction appears to be in most contracts uniform. In other words, if the Lake Erie base price were to go up, your contract price would also go up. If the Lake Erie base price were to go down, your contract price would also go down. It appears then, and I think it is correct to state, that the ore moves generally speaking in relation to the Lake Erie base price.

Representative REECE. Thank you.

The VICE CHAIRMAN. While you are making that explanation, would you add another, and that is, is it in the record yet—if it is I won't ask the question—as to the variation in proportion to quantity? I believe it is in testimony here that there are also variations dependent upon increased labor costs, increased production costs, variations of the base price. I understood one of the gentlemen to testify to that effect.

Mr. HENDERSON. I think Mr. Patrick Butler covered that. That was the second type of contract you spoke of. That is a sort of managerial contract in which there is an adjustment for certain costs.

Mr. FELLER. I may explain, Congressman, that there are two types.

The VICE CHAIRMAN. I was asking about that one proposition. Is it in the record as to the difference in price dependent upon quantity contracted for in the contract?

Mr. FELLER. Yes; the record states that.

Representative REECE. If this could be summarized in a few words, I wouldn't be averse to hearing it, although it is in the record.

Mr. HENDERSON. Both Mr. Hoyt and Mr. Humphrey gave very excellent accounts yesterday.

Mr. HUMPHREY. Mr. Henderson asked me a good deal of questions about this yesterday, and apparently I didn't make myself clear, because you don't seem to have in your mind, Mr. Feller, that there are variations and allowances from the price, based on exactly the conditions Mr. Reece is talking about. For quantity, for the term that the contract may be, or for just trade allowances, just for an allowance to get the business. That is true of the contracts I am speaking about, variations from the base price which are made to get the business that are competitive allowances. There are any number of allowances that are made, premiums and penalties that are figured on the physical qualities of the ore and that are also figures based on the commercial conditions under which the ore is sold, whether it is for a long period or a short period or for a large quantity or a small quantity, or just a trade concession in order to get the business competitively.

The VICE CHAIRMAN. Do you think you are clear in the statement which you have made for the record with reference to the variation dependent upon quantity purchases. You think that is clear in the record?

Mr. HUMPHREY. I hope with what I have said just now it is. Apparently these gentlemen haven't understood it.

The VICE CHAIRMAN. Let me ask you one other question, and see if this is clear in the record. When you speak of variations from the base price made in an effort to make the sale, what difference is there between that sort of situation and some one else negotiating with regard to the sale of a commodity without regard to a base price?

Mr. HUMPHREY. There isn't a bit of difference. We start with the base and make whatever concession you and the purchaser agree on. You make adjustments in various ways and finally arrive at a price that the purchaser pays.

The VICE CHAIRMAN. Is there any favoritism depending on who your customer is, with reference to what difference there is in adjusting your price?

Mr. HUMPHREY. You may make a sale under as favorable conditions as possible, trying to get the best price you can.

The VICE CHAIRMAN. My question is: If you have two people come into your office at the same time, and each of them is just about as hard to sell as the other, do you have customers who have less difficulty in persuading you to make a better price?

Mr. HUMPHREY. You mean through some association we have with them?

The VICE CHAIRMAN. I don't care what kind of route you go.

Mr. HUMPHREY. Not as far as we are concerned, no. The difference would be, in our case, if conditions were different. If we sold one customer at one time and another at another, conditions might make it harder.

The VICE CHAIRMAN. If they all got there on Wednesday morning at ten o'clock, your conditions would be the same.

Mr. HUMPHREY. They would be the same, and if we sold them under the same terms, I see no reason why we would not get the same price.

Mr. FELLER. May I ask you this: In the case of a spot sale, supposing the purchaser came into the market and said, "I want to buy a lot of ore from you, Mr. Humphrey, at a spot sale," what price would you quote?

Mr. HUMPHREY. I think I would drop dead. [Laughter.]

Mr. HENDERSON. By that I guess you mean, Mr. Humphrey, that any steel producer in a position to make a large contract is already tied up with one of the large companies to a large extent.

Mr. HUMPHREY. Not for his entire requirements. We have already outlined to you gentlemen that about 85 per cent of this ore moves between the owner of the ore in the ground, and the owner of the plant to which it goes, and that what is being sold is a relatively small amount.

We also explained to you that which perhaps isn't clear, that in making steel or making pig iron you have to have various kinds of ore. There isn't any one ore that is found that I know of that you can just put that one ore in and make pig iron out of it of the kind you want to make steel with. You have to have, because of its physical characteristics or its chemical characteristics—in the making

of steel and in the making of pig iron, you go into thousands of a percent, hundredths of a percent, in certain qualities or certain elements of that ore.

Now, to get a proper burden for your furnace that will make the chemical product that you want, you must balance your burden and you must have ores of varying chemical analyses which are weighted out, and it is a long and difficult calculation and they are weighted out, and those various ores are brought together to get you the result you want of a mixture of chemical elements.

There are a good many cases where people don't have—well, they may own a large tonnage of ore. They may have a large tonnage on hand, but they don't have exactly the kind of ore with a certain ingredient in it, or lack of ingredient in it, that is necessary to make the kind of steel they have to make. In that case they look around to see who has that and buy it from them. That is a matter of negotiation between the buyer and the seller. and the seller buys that ore and has it.

Mr. Feller. I should like an answer to my question other than the somewhat depressing one that you gave. Suppose a seller next year—business, we hope, will be good—or a purchaser, rather, of ore, comes to you and says, "I would like to buy 10,000 tons of ore on a spot sale." What would the price to him be?

Mr. Humphrey. If the market was strong I would hope to get an increase in price over what we are getting this year.

Mr. Feller. It would be the market price, would it?

Mr. Humphrey. It would be whatever price I agreed upon with that purchaser and made a sale at.

Mr. Feller. Based upon the Lake Erie base price?

Mr. Humphrey. After a sale had been established? If somebody had previously sold ore at a price so I knew there were other people that had ore available. Let's say ore had been sold at $4.95 when I was talking to my customer. If somebody had previously sold ore at $4.95 I would know right then that there was no use in my trying to get a higher price from any customer, so I would meet that price.

Mr. Feller. I am talking about a customer here who comes to you and says, "The Lake Erie base price is $4.95. I would like to take 10,000 tons of ore from you at $4.60," what would you say?

Mr. Humphrey. If the market was strong I could say no, because I would hold it and sell for more money, or feel that I could.

Mr. Feller. Was there ever a case in which you sold ore below the Lake Erie base price, as it had been established for the season?

Mr. Humphrey. I can't tell you. There is no reason why I couldn't, but I don't think I would, because I think I would feel that I should get that price.

Mr. Feller. I should now like to resume——

Mr. Henderson (interposing). I want to get back to the line and would like to ask the following questions. I would like to ask Mr. Oglebay, in any of the years between '29 and '37, did you make a substantial contract below the last year's Lake Erie price before the new year's price was established?

Mr. Oglebay. No.

Mr. Henderson. I should like to ask Mr. Emmett Butler the same question. Did you understand my question, Mr. Butler?

Mr. Emmett Butler. No; I would like to have you repeat it.

Mr. HENDERSON. In any of the years from '29 to '37, when, as Mr. Patrick Butler and others have said, pressure sales were liable to occur, did you make any substantial contract lower than the last year's price which was not published, and thereby did not become the price for the next year, as it would have if published?

Mr. EMMETT BUTLER. I don't recall any now; no.

Mr. HENDERSON. Exclusive, maybe, of Ford.

Mr. EMMETT BUTLER. We sold Ford, I think, at the published price in 1930.

Mr. PATRICK BUTLER. May I add here we also sold Ford at less than the published market price?

Mr. HENDERSON. Was that, in any of those years, before the season price had been established?

Mr. PATRICK BUTLER. No; that was after the season price had been established. I am quite sure of that. I would have to check my records.

Mr. HENDERSON. In addition to Ford, did you sell?

Mr. PATRICK BUTLER. Yes; we have sold spot sales at less than the market price.

Mr. HENDERSON. At less, and that did not become the price for that season because it did not get published?

Mr. PATRICK BUTLER. Those prices, as I recall it, were made after the price had been established.

Mr. HENDERSON. You see what I am getting at. I am trying to find out in addition to Ford—I ask you and Mr. Oglebay because you are more likely, because of your contractual relations, to have made those—where would the pressure sales be likely to have come from?

Mr. PATRICK BUTLER. Other than from——

Mr. HENDERSON (interposing). Other than from the industries here represented?

Mr. PATRICK BUTLER. Pressure sales were apt to come from us, from our company, and from four or five different other mining companies.

Mr. HENDERSON. You say you did make some spot sales at less than the published price.

Mr. PATRICK BUTLER. Yes.

Mr. HENDERSON. In any of those years was it in advance of the establishment of the season's price?

Mr. PATRICK BUTLER. I don't believe it was. I am quite sure it wasn't.

Mr. FELLER. I should like to ask you, Mr. Butler, specifically with reference to the sales made to Ford at less than the established market price: Do you recall whether you made such a sale in the year 1929?

Mr. PATRICK BUTLER. You have the record there. I think we sold Ford in 1929. I believe that was made at the market price.

Mr. FELLER. Do you remember whether you made a sale to Ford below the market price in the year 1931?

Mr. PATRICK BUTLER. I think we did in 1931. I am not sure, I would have to check my records.

Mr. FELLER. I should like first to show you a letter written by you to your father, Mr. Emmett Butler, dated March 28, 1929. Will you identify that, please?

Mr. PATRICK BUTLER. Yes, I identify it.

Mr. Feller. I offer this for the record, Mr. Chairman.

The Vice Chairman. It may be received.

(The letter referred to was marked "Exhibit No. 1370," and is included in the appendix on p. 10441.)

Mr. Feller. The letter reads as follows:

> I had a talk with Elton Hoyt yesterday afternoon and he talked me out of quoting Ford on any of our grades at less than the full market price. He said the market for standard ores is still a little shaky and that it would be dangerous to quote Ford anything under the full price.
>
> On the Hume quotation, there would be too much danger of the Corporation learning that we were using any other basis for figuring other than that we submit to them. And I'm afraid that our goose would be cooked if Shiras ever heard of it.
>
> In light of the above I am submitting today quotations on Hume, Knickerbocker, Louise, Kevin and Butler silicious at the full season's prices.

To clarify a bit, Mr. Butler, the corporation is the United States Steel Corporation?

Mr. Patrick Butler. That is right. And Shiras was the ore agent at that time for the Carnegie Steel Co.

Mr. Feller. I should like to ask you whether it is the custom for you to consult with Mr. Hoyt or anyone else before quoting Ford.

Mr. Patrick Butler. I would say it was not the custom.

Mr. Feller. But you did in that year.

Mr. Patrick Butler. I did in 1929. Bear in mind we had a contract with Mr. Hoyt's company, and the price of that, under our contract, was based on the market price of ore. If I recall the conversation out of which this correspondence grew, I endeavored to find out from Mr. Hoyt if any price we quoted Ford would have an effect on the market price, and which would adversely affect the price we would obtain from him.

Mr. Feller. That is the contract with reference to which you wrote in a letter which is in the record that a certain clause in that contract was made in order to keep you out of the market.

Mr. Patrick Butler. No; it was not in reference to that.

Mr. Feller. Not in reference to that contract?

Mr. Patrick Butler. It was in reference to that same contract; yes.

Mr. Feller. Does it follow from your answer that because you have this contract with Mr. Hoyt that you consult him regularly with respect to any sales which you make which may affect the market price?

Mr. Patrick Butler. No; that does not follow.

Mr. Feller. But you have done so occasionally.

Mr. Patrick Butler. I have; yes.

Mr. Feller. I show you a letter written by you to your father dated August 4, 1931, taken from your files. Will you identify it, please?

Mr. Patrick Butler. Yes; I identify it.

Mr. Feller. I offer this, Mr. Chairman.

The Vice Chairman. It may be received.

(The letter referred to was marked "Exhibit No. 1371," and is included in the appendix on p. 10441.)

EFFECT OF CUTTING THE MARKET PRICE

Mr. FELLER. The letter is dated August 4, 1931. I shall read an extract from it. [Reading:]

I believe it would be a dangerous thing to quote below this year's market, whether it be for this year only or a term of years. For one reason I believe that any price, no matter on what basis, quoted for this year would establish next year's market price. The Ford business is the only open market business left and if this is not maintained I do not know what would become of our long term contracts that are based on a market price. Then also, if we took away the business from Pickands, Mather on a price concession we would incur the wrath of Jim and also give the old line companies an excuse to do likewise. Now that Quinn is practically out of business I believe the ore market can be more closely controlled.

We are the only people that can furnish them a tonnage of low phos., ore and I am of the opinion that we can use this as a club to move our other grades in the same way that Cleveland-Cliffs uses their monopoly on open hearth ore.

That is the end of the quotation.

I should like to continue reading. This is important:

I appreciate your anxiety to land this business but I believe it would be a dangerous thing to cut the price in any way whatsoever. We will, however, consult with the Big Four beforehand to assure ourselves that they will not try any such tricks.

There are a number of terms in this letter that I should like to have clarified. First, who are the "Big Four?"

Mr. PATRICK BUTLER. That is Pickands, Mather; Oglebay, Norton; Cleveland-Cliffs; and M. A. Hanna.

Mr. FELLER. Reference is made to Jim.

Mr. PATRICK BUTLER. That is James A. MacKilliken, representing the fee interest in some of the properties we lease. I don't know whether he was at that time or not, but he has from time to time shipped ore on his own account.

Mr. FELLER. Why should this gentleman be wrathful if you took away business of Pickands, Mather?

Mr. PATRICK BUTLER. At that time Pickands, Mather were sales agents for his ore.

Mr. FELLER. May I also ask you who Quinn is?

Mr. PATRICK BUTLER. He was Clement K. Quinn, who at that time was an independent mine operator, or producer.

Mr. FELLER. You say he is practically out of business, meaning that he had ceased operations.

Mr. PATRICK BUTLER. He had practically ceased operations at that time.

Mr. FELLER. Referring to this letter again, what did you mean by saying "it would be a dangerous thing to quote below this year's market?"

Mr. PATRICK BUTLER. It was dangerous in this respect, that if it became known that Ford obtained prices—this was in August—below the market price, it would fix the price in the succeeding year.

Mr. FELLER. Then you thought it best not to sell Ford below the market price then?

Mr. PATRICK BUTLER. That's right.

Mr. FELLER. I take it that that covers the two or three sentences which follow, the sentence referring to the "dangerous" thing. You go on to say [reading]:

> Then also, if we took away the business from Pickands, Mather on a price concession we would incur the wrath of Jim and also give the old line companies an excuse to do likewise.

Now, did you mean that if you cut the market price, Pickands, Mather would take the opportunity to retaliate upon you, or in any way bring pressure upon you?

Mr. PATRICK BUTLER. No.

Mr. FELLER. Why were you afraid of the wrath of Jim then?

Mr. PATRICK BUTLER. No; Pickands, Mather would quote MacKilliken's ore to Ford. Now, if we went in and made a price concession to Ford which took the business away from MacKilliken, then I believe MacKilliken might not feel very kindly toward us.

Mr. FELLER. What would he do to you?

Mr. PATRICK BUTLER There are any number of ways in which a fee owner might make it unpleasant for an operator.

Mr. FELLER. He was the owner of the fee of some certain properties which you were operating?

Mr. PATRICK BUTLER. He was representative of the company that held the fee.

Mr. FELLER. and as such representative it was in his interest to see to it that the owners of the fees got royalties?

Mr. PATRICK BUTLER. That's right.

Mr. FELLEL. Now, what you recommended doing in this case was that you not sell ore to Ford. Didn't that result in cutting down the royalties which the fee owners received?

Mr. PATRICK BUTLER. If we made the sale to Ford——

Mr. FELLER (interposing). Your fee owners, represented by Mr. MacKilliken, would then have received some royalties.

Mr. PATRICK BUTLER. On that particular tonnage; yes.

Mr. FELLER. Then you recommended—I have not yet established whether you made the sale or not. By the way, did you make the sale in that year?

Mr. PATRICK BUTLER. I don't believe so, Mr. Feller. I would have to look at our records to be sure.

Mr. FELLER. We will take it, then, that you recommended——

Mr. PATRICK BUTLER (interposing). I recommended that we do not make the sale below the market price.

Mr. FELLER. Then is it not correct to say that your recommendation that no sale be made to Ford below the season price was made because you were afraid of incurring the wrath of Pickands, Mather?

Mr. PATRICK BUTLER. No.

Mr. FELLER. Mr. MacKilliken represented certain Pickands, Mather interests; did he not?

Mr. PATRICK BUTLER. I think Mr. MacKilliken represented the fee owners in properties operated by Pickands, Mather.

Mr. FELLER. And you assumed that Mr. MacKilliken, faced with a choice of protecting the interests of the fee owners in properties which you operated, and protecting the interests of fee owners in properties operated by Pickands, Mather, would use the latter alternative?

Mr. Patrick Butler. I don't follow you there, Mr. Feller. You are asking me to say what choice MacKilliken had in the matter, and I can't testify as to that.

Mr. Emmett Butler. I might say that the amount of royalty that the fee owners whom Mr. MacKilliken represented got, depended on our sales price of the ore.

Mr. Feller. That is certainly correct, but if you sold no ore to Ford there would be less of a royalty than if you sold it at a cut price. Isn't that correct?

Mr. Emmett Butler. I think that is correct, so it was a matter of their decision of whether they would rather maintain a price, a reasonable price, or forever establish a price that was unreasonably low.

Mr. Feller. Does it follow, Mr. Butler, that if a price, a sale, were made at a particular price, that that would establish the price forever?

Mr. Emmett Butler. I don't know.

Mr. Feller. In other words, you are, or at that time were, apprehensive that if this market price should go down, it might stay down?

Mr. Emmett Butler. Yes.

Mr. Feller. And consequently you made your efforts to see that that price remained at that level?

Mr. Emmett Butler. Yes.

Mr. Feller. Mr. Patrick Butler, further on in that same paragraph of the letter of August 4, 1931, occurs this statement [reading from "Exhibit No. 1371"]:

> Now that Quinn is practically out of business I believe the ore market can be more closely controlled.

Controlled by whom, did you mean?

Mr. Patrick Butler. In the sense that there would be less ore offered on the market, in the case where there would be a lesser supply of ore.

Mr. Feller. I understand that that is the reason why it could be more closely controlled, but who would do the controlling?

Mr. Patrick Butler. I had nobody in mind that would do the controlling.

Mr. Feller. Did you mean the Big Four?

Mr. Patrick Butler. No; I did not mean the Big Four.

Mr. Feller. I should also like to ask you, with respect to the statement at the end of this letter [reading]:

> We will, however, consult with the Big Four beforehand to assure ourselves that they will not try any such risks.

Is that customary?

Mr. Patrick Butler. It was part of my job to find out what my competitors were doing, if I could find out by visiting with them or drawing deductions from anything I could learn about it was my job to find out what they were going to do or what they had in mind so far as price was concerned, and make my price accordingly.

Mr. Feller. Is it correct, then, that it is part of your job to consult with your competitors before you submit a bid to Mr. Ford?

Mr. Patrick Butler. "Consult" is not exactly the word. I like to find out always what they are going to do.

Mr. FELLER. In a letter which was introduced yesterday [1] the statement occurred, as you may recall, "We mailed our bid to Ford yesterday, as did the others." That letter was written in 1934. Did you, at that time, find out, or did you at that time inquire, as to what price the others were going to bid at?

Mr. PATRICK BUTLER. I don't recall that specifically.

Mr. FELLER. I should like you to identify this letter, Mr. Butler. It is signed by you, addressed to Mr. Emmett Butler, dated March 25, 1931. The letter was taken from the files of your company.

Mr. PATRICK BUTLER. Yes; I identify it.

Mr. FELLER. I offer it for the record.

The VICE CHAIRMAN. It may be received.

(The letter referred to was marked "Exhibit No. 1372" and is included in the appendix on p. 10442.)

Mr. FELLER. I shall read this letter [reading]:

> As I wired you this morning the 1930 prices will be submitted to Ford by the Big Four and ourselves. Oglebay-Norton have been unable to keep Nelson & Associates from making a cut on their product. This cut is supposed to be about fifteen cents a ton. Oglebay-Norton will not quote on this grade and will refuse to take a commission on the sale of it. It is the consensus of opinion that too much is at stake to meet this competition and as usual I have agreed to stay in line.

For the record may I say that the letter contains, in typewriting, the words "Oglebay-Norton will not cut * * *." The word "cut" is stricken out and the word "quote" is written over it in ink. I shall read that again:

> Oglebay-Norton will not quote on this grade and will refuse to take a commission on the sale of it. It is the consensus of opinion that too much is at stake to meet this competition and as usual I have agreed to stay in line.
>
> It is our opinion that Ford will not buy from any property that has not shipped before, even at a reduction in price.
>
> We expect action on Ford's bids the first part of the coming week. Copies of our quotations will be sent as soon as I can get them back from Wyman, who is in Detroit at present.

Mr. Butler, in the month of March 1931, did you consult with the Big Four as to the bids which they were going to make to Ford?

Mr. PATRICK BUTLER. Evidently I did.

Mr. FELLER. What was the consensus of opinion that was referred to?

Mr. PATRICK BUTLER. Evidently in my talks with the Big Four I gathered, as I said, that there was too much at stake to meet this competition.

Mr. FELLER. And as usual, you agreed not to cut the price. That is what you mean by staying in line.

(The witness, Mr. Patrick Butler, nodded in the affirmative.)

The VICE CHAIRMAN. Was there an answer to that last question?

Mr. HENDERSON. The witness nodded.

Mr. FELLER. In using the words "as usual" is it correct to say that you are indicating that it was a matter of custom or of standing practice that you would consult with the others, and would agree with them not to cut prices?

Mr. PATRICK BUTLER. I have told others that I would quote a certain price.

Mr. FELLER. Have they asked you to stay in line?

[1] "Exhibit No. 1369," appendix, p. 10441.

Mr. Patrick Butler. No; they have pointed out to me that if I did quote below the market price it might affect the market price, and hence affect the price that we would get under our contracts.

Mr. Feller. Well, Mr. Butler, as a man who has been in the ore business a long time don't you think they assumed that you knew that if you cut the market price it would affect the price?

Mr. Patrick Butler. Yes.

Mr. Feller. Why should they go to the trouble of pointing this out to you?

May I make my question just a bit fuller?

Mr. Patrick Butler. I don't say that they did go to the trouble. It was part of the general discussion.

Mr. Feller. Now I should like to get a somewhat clearer picture of these general discussions. In these general discussions, as I understand from your testimony, someone would say to you, "If you sell below the market price, it will affect the market price, or it will affect the price that you get for your product," and you then said, "I agree not to cut." Now as an ore man, wasn't it always obvious to you that if you cut the price you would get less for your product?

Mr. Patrick Butler. Under certain conditions that is true. Under other conditions I could assure myself that if I cut the price in a certain instance, it would not affect the market price, and I testified before that I have made sales under the market price which I felt reasonably confident when I made that quotation would not affect the market price.

Mr. Feller. Then I take it in these discussions, what you sought was instructions from the others as to what would be the effect on the market price.

Mr. Patrick Butler. I wouldn't put it as instructions.

Mr. Feller. Exactly what would you say in these discussions?

Mr. Patrick Butler. In the discussions I had——

Mr. Feller (interposing). May I just amend that to make it a bit more specific. Let us take the situation which occurred at the time this letter was written. Apparently there was consultation of some kind with respect to the bids that would be submitted to Ford. Now, did you at that time say to the Big Four, "I am going to quote Ford at the following price?"

Mr. Patrick Butler. I may have. I don't recall.

Mr. Feller. Have you ever done that?

Mr. Patrick Butler. I can't say that I have or that I have not, either way. I may have said, "I am going to quote last year's price."

Mr. Feller. Or you may say, "I don't think I will stay in line this year."

Mr. Patrick Butler. I don't recall ever saying that.

Mr. Feller. How would this question come up as to whether you had agreed to stay in line or not?

Mr. Patrick Butler. I would say, I think I have said to them, "I am going to quote last year's market price."

Mr. Feller. Is that what you mean by agree? I take it that the word "agree" indicates that somebody made a proposition to you, or made a statement to you, and that you agreed with that statement.

Mr. Patrick Butler. In quoting from these letters, Mr. Feller, I was not looking forward to the time I would be sitting here, and I was not as choice in my language as I might have been.

Mr. HENDERSON. I think what he is saying, Mr. Feller—we had a great-to-do about semantics at one time. Semantics were intended to clarify language, and what we have been running into is business semantics, and what Mr. Patrick Butler termed business shorthand for some things. For example, this united front wouldn't mean the same thing in connection with this industry as it would mean before the Dies Committee.[1]

Mr. FELLER. Mr. Oglebay, this letter, which I have just been discussing with Mr. Patrick Butler, states [reading]:

> Oglebay, Norton will not quote on this grade, and refused to take a commission on the sale of that.

Do you recall that?

Mr. OGLEBAY. I do not recall that specifically, but it seems to me that this brings a rather interesting question of enlightenment before the committee. Mr. Nelson represented a property called the Greenway property. He had got three or four leases together, and combined that in the one property, and later we took the lease of that property. It shows the difficulty in carrying on here in the last few years. We put $750,000 in this Greenway property. We didn't move a pound of ore from the property, and abandoned it and lost our $750,000. That is our association with this Greenway lease, or the association with Mr. Nelson.

Mr. HENDERSON. That is Oglebay, Norton money.

Mr. OGLEBAY. No; I meant the companies we operate in our office, Montreal Mining Co., Columbia Steamship Co., and one or two of our smaller companies decided to form a corporation to take over the lease of the Greenway mine and operate it. We stripped it, equipped it, spent about $750,000 on it, and couldn't move sufficient ore to pay its minimum charges, so we lost it.

At this time Mr. Nelson was negotiating with us for this lease. This is sort of off the record. I doubt very much whether Mr. Nelson had a mine that would be able, really, to meet the qualifications necessary for Ford delivery, but that is just a sort of thought as I look back on it. We never sold 1 pound of this ore to anybody, and lost in our association three-quarters of a million dollars.

The VICE CHAIRMAN. To whom did you lose that mine?

Mr. OGLEBAY. It went back to the fee owners.

The VICE CHAIRMAN. Is anybody operating it now?

Mr. OGLEBAY. No. I would like to just sort of put in the record, too, that this "Big Four" and "United Front"—what we are, we operate two mines, Oglebay, Norton. One of them is the Castile mine, and that is owned, two-thirds of it, by the American Rolling Mill Co. and the Wheeling Steel Corporation. They take all the ore from that property. That property produces as its maximum about 400,000 tons. The second property we operate in our office is the Montreal Mining Co., which at its maximum produces about a million tons, averaging in the last few years anywhere from five hundred to eight hundred thousand tons, and that property is associated with four companies that take about 90 to 95 percent of its production. That is the Jones & Laughlin, Wheeling Steel Corporation, American Rolling Mill Co., and the Steel Co. of Canada. So we aren't very prominent in this selling proposition, as you might call it.

[1] A Special Committee On Un-American Activities, pursuant to H. Res. 282, 76th Cong., 1st sess., Representative Dies (Texas), chairman.

Now then, we also, during these intervals of the last 5 years, or 7 years, did operate two other properties, and from neither one of those properties could we sell sufficient ore to meet the minimum requirements for operation, and we had to abandon them. I just wanted to have a sort of a feeling on the part of the committee here to have a realization of what I am when it comes to the Big Four in ore values, and a few other things.

Mr. FELLER. I take it then, you think the term "Big Four" should be amended to be "Big Three"?

Mr. OGLEBAY. It certainly shouldn't include us.

Mr. HENDERSON. I take it that is what you were trying to do when you sold two-thirds of your interest to Mr. Creene's people. You were trying to get into the Big Four class?

Mr. OGLEBAY. Trying to.

Mr. HENDERSON. Perfectly legitimate, I might say.

Mr. FELLER. Mr. Oglebay, you told us Nelson & Associates were losing money. Why did you want to induce them not to sell at cut price?

Mr. OGLEBAY. I don't remember the details of this. As I said, I don't believe that they were in a position to make very much of a delivery, because afterward we took over these properties in order to prepare them to produce ore. We spent $750,000, so that this was in the early negotiations, before the property was ready to produce, and we ourselves never sold any ore or moved any ore from the property, so I doubt very much whether Nelson was really in a position to make deliveries to Ford, but I am not confident of that, and I don't remember it in sufficient detail to have the accurate facts.

Mr. FELLER. Do you recollect conversations which you had with Nelson & Associates to induce them not to sell ore at particular prices?

Mr. OGLEBAY. No; I do not. Nelson was rather an odd fellow, and he was constantly coming into our office and visiting the people, but he didn't have a mine that was able to produce in any quantity, so it isn't of very much moment, as I see it.

The VICE CHAIRMAN. This mine that you surrendered, was the surrender due to the quality of ore which could have been found by sufficient exploration before you went to work on it, or due to market conditions?

Mr. OGLEBAY. No, sir; it was a mine that the fee owners wanted $75,000 a year minimum as rental to them. And as I remember, there was about $40,000 a year in taxes, so that the property had a standby expense of approximately $125,000 to $150,000 a year.

Now, in order to meet that, plus the cost of mining, plus the cost of royalties, it was necessary for us to move quite a nice tonnage—around three to four hundred thousand tons of ore a year, and we couldn't sell that ore to anybody at that time in that tonnage that would allow us to mine at a profit, so we had to just give up our lease.

The VICE CHAIRMAN. Then it was due to the market conditions. Was it due to the quality of the ore, or the fact that the market wouldn't absorb it?

Mr. OGLEBAY. My own personal experience here in the last 7 or 8 years with these three properties that we all abandoned, is that there was so little what might be called spot sales that it wasn't of very much moment. That is, ore that was sold like Ford ore, and then we tie up with any associations like Jones & Laughlin and Wheeling

Steel Corporation, in the last seven or eight companies have had, either through ownership of their own properties or through obligations of long-term contracts, more ore than they could nicely handle, so that none of those companies was in a position to buy additional ore, no matter how attractive a price might be made them.

The VICE CHAIRMAN. Let me ask this question. Was there such a percentage of the purchase of ore tied up with contracts that you couldn't attract to this property enough contracts, either spot sales or basic contracts, whatever you call it, to dispose of enough ore to keep it going?

Mr. OGLEBAY. That is the answer, yes. We lost, through our inability to do that, $750,000.

The VICE CHAIRMAN. It wasn't due to lack of preliminary exploration, or to quality of the ore, but when you got your ore ready to sell you found everybody else either tied up with contracts—well, tied up with contracts.

Mr. OGLEBAY. Either contracts or through ownership. Every steel corporation you go to today, I would say——

The VICE CHAIRMAN (interposing). They weren't in the market.

Mr. OGLEBAY. Our experience is that you go to a corporation today and they, through either ownership of their own ores or obligations they have, are covered for about 75 percent of their ore requirements. In the last 7 or 8 years their ore requirements haven't exceeded 40 percent, so they haven't a great problem of taking care of their obligations or meeting the positive idleness which caused us to abandon this Greenway property. If this Greenway property had been in the hands of a large corporation they would have retained that property and paid this hundred thousand dollars a year, but being a small corporation like ourselves there were not the funds available to go along and get this hundred thousand dollars for a couple years or 3 years.

LIMITED MARKET FOR ORE SALES

The VICE CHAIRMAN. What percentage of the consumers of ore now produce their own ore; or rather, may I ask it this way—are dependent upon production coming from mines that they themselves own and control—would you say?

Mr. OGLEBAY. I would say it is approximately 85 to 90 percent.

Mr. FELLER. In terms of tonnage.

Mr. OGLEBAY. In terms of tonnage.

The VICE CHAIRMAN. That is what I am talking about, too.

Mr. OGLEBAY. I would say this, as just a salesman trying to sell his shoes, I don't know where you would go today to make a contract with anybody, any of the large corporations, for the purchase of ore. I think you would find every one of them with obligations, either through long-term contracts or through association ownerships, that they have all the ore at the present time that they need. Now, if business comes back and we have a few more years like '37 and the latter half of '39, then that story will change. I am only speaking now of the history of the ore business from '30 to '39.

The VICE CHAIRMAN. Do you believe that improved conditions might make it possible for a mine situated as this mine was that you had to close up to stay in business.

Mr. OGLEBAY. I don't think we would look forward to any new corporation. I would say this, just as Mr. Humphrey has outlined here——

The VICE CHAIRMAN (interposing). If it has been outlined, I don't want to go into it.

Mr. OGLEBAY. I mean this is true, I think——

The VICE CHAIRMAN (interposing). You have answered my question.

Mr. OGLEBAY. When the operations of the steel company exceed 80 percent, then I mean they would probably be in the market for certain grades of ore, but I would say that until the steel companies are operating somewhere approximating between 75 and 80 percent there is little need for further ore.

The VICE CHAIRMAN. That explains it.

Mr. HENDERSON. When did you give up the Greenway property?

Mr. OGLEBAY. I would say about 4 or 5 years ago, but I don't remember the actual date. It was in 1929.

Mr. HENDERSON. Is that since Cliffs bought into your group?

Mr. OGLEBAY. Yes.

Mr. HENDERSON. Did you have any negotiations with Cliffs about them taking it over?

Mr. OGLEBAY. No; I mean as Mr. Greene has outlined Cliffs were also sort of lacking as to funds during these years.

Mr. HENDERSON. He might have sold some steel stocks.

Mr. OGLEBAY. They weren't very valuable, too.

Mr. HENDERSON. I am not trying to pin anything down by this. I am just wondering whether or not the thing seemed so unattractive even to the combined group, yourself and Cliffs, that it wasn't attractive enough to make an effort to keep it. That is the point I am getting to.

Mr. OGELBAY. I think you might say this, Mr. Henderson, that it is a great problem today with the ores that are owned by Cleveland-Cliffs Iron Co. and the ores that are owned in our office to sell at a sufficiently attractive price to make these investments profitable. You only have a few customers and if you lose one of them it is very difficult to replace him because you have to find this fellow, this large corporation, that is in need of additional ores, and as we have just stated 85 or 90 percent of their requirements are taken care of by ownerships of long-time contracts; it doesn't leave much of a chance for new business.

Mr. HENDERSON. I think that is one of the most significant things that has been brought out in the testimony of the last few days.

Mr. FELLER. Mr. Patrick Butler, I should like to have you identify two letters, one signed by you addressed to your father, dated March 27, 1929, and the other signed by Mr. C. L. Wyman, addressed to Mr. Emmett Butler, dated April 16, 1935. Both of these letters were taken from your files.

Mr. PATRICK BUTLER. Yes; I identify them.

Mr. FELLER. I offer these.

The VICE CHAIRMAN. All right.

(The letters referred to were marked "Exhibits Nos. 1373 and 1374" respectively, and are included in the appendix on pp. 10442 and 10443.)

PRICE DISCUSSIONS

Mr. FELLER. I shall read one paragraph from each letter. The letter dated March 27, 1929, and signed by you reads as follows [reading from "Exhibit No. 1373"]:

> I am seeing Hoyt this afternoon to find out what we shall quote on manganiferous ore and possibly to get his approval of our offering Hume as a straight iron ore. Also, if we can't quote Kevin 10 cents to 15 cents off without stepping on Bennett's or his corns.

Is it your custom to seek Mr. Hoyt's approval as to the price at which you are going to sell ore?

Mr. PATRICK BUTLER. You will recall, Mr. Feller, that Mr. Hoyt and Mr. Hoyt's company had an option on our surplus ores. That was what I referred to.

Mr. FELLER. Do you recall the date of that contract?

Mr. PATRICK BUTLER. Negotiations took place throughout the late summer and fall of 1928 and I think the date of the contract was in January '29.

Mr. FELLER. Do you conceive that by virtue of that contract you have to seek Mr. Hoyt's approval as to the kind of ore that you offer to others? If you will recall, this statement reads "to get his approval of our offering Hume." I take it that is a grade of ore?

Mr. PATRICK BUTLER. Yes.

Mr. FELLER. "As a straight iron ore."

Mr. PATRICK BUTLER. Hume grade is a manganiferous ore; it contains about 5 percent of manganiferous. If it was considered as an iron ore——

Mr. FELLER (interposing). As I recall it, as the record, I believe, indicates, the contract gives Mr. Hoyt's company an option to purchase surplus ore. Is there anything in the contract which provides that Mr. Hoyt must approve the prices at which you sell to others?

Mr. PATRICK BUTLER. No.

Mr. FELLER. Have you so construed the contract?

Mr. PATRICK BUTLER. No.

Mr. FELLER. But you have adopted the practice of asking him whether or not you can sell ore to somebody else at a particular price?

Mr. PATRICK BUTLER. When I contemplated selling ore from the properties which I specified in the contract, selling ore to others, I would tell Mr. Hoyt that I contemplated selling ore to others under his option agreement and he could take that price or not as he saw fit.

Mr. FELLER. I should also like to read a paragraph from the letter dated April 16, 1935, signed by C. L. Wyman. Who is he?

Mr. PATRICK BUTLER. Mr. Wyman is my assistant in Cleveland.

Mr. FELLER. The paragraph that I refer to reads as follows [reading from "Exhibit No. 1374"]:

> The Ford Motor Company Inquiries came in today calling for 120,000 tons of basic with phosphorous under .10 and 60,000 tons of high phosphorous ore.
>
> I checked up with Hanna's and Pickands, Mather today and find that there has been no decision—

For the reporter, the word "decision" is written in in ink and underneath it the word "discussion" in type has been scratched out—

> there has been no *decision* as to what this year's price will be, except that there seems to be some difference of opinion as to whether or not the surcharge on freight rates will be absorbed and the same market price named as existed over the past several years.

Is it your understanding, Mr. Patrick Butler, that in April of 1935 there had been a discussion or consultation or meeting of some kind to decide what the year's price would be?

Mr. PATRICK BUTLER. I think that would refer, if I can interpret Wyman's letter for him—he called up somebody in the Hanna Co., and somebody in the Pickands, Mather Co., and asked them if their prices had been established for the year, if the prices they made to their customers had been made—I mean if their negotiations with their customers had been had. I imagine that is what happened.

Mr. FELLER. Do you recall whether he asked them what prices he was going to charge?

Mr. PATRICK BUTLER. I suppose he asked them, "What is this year's market price."

Mr. FELLER. Wouldn't he know that by reading the trade journals?

Mr. PATRICK BUTLER. This was evidently prior to the time that the price for that year, 1935, was published.

Mr. FELLER. If no sale had been made, how could anybody know what the market price could be?

Mr. PATRICK BUTLER. They don't know.

Mr. FELLER. When is this price published, right after the first sale?

Mr. PATRICK BUTLER. Yes.

Mr. FELLER. Then if there was no published price at that time, can we not assume that there had been no sale; consequently no market price under the custom of the industry?

Mr. PATRICK BUTLER. That is right, if there had been no sale—evidently at that late time, by April 16, there certainly had been no negotiations leading up to an establishment of the market price.

Mr. FELLER. What Mr. Wyman would be doing, then, would be asking Pickands, Mather and Hanna's, "What will be the market price?"

Mr. PATRICK BUTLER. Yes; I would imagine so.

Mr. FELLER. How would either of them know which was going to make the first sale?

Mr. PATRICK BUTLER. I don't say that they would know who was going to make the first sale. He was asking for information as to what their best guess was as to what the market price would be.

Mr. FELLER. You don't think that there was at that time any concensus, any discussion, any consultation among other members of the industry?

Mr. PATRICK BUTLER. I imagine there was discussion among other members of the industry, I don't know.

Mr. FELLER. Mr. Hoyt, may I ask you whether it is customary in this industry for your competitors to ask you at what price they should sell their product?

Mr. HOYT. I say it is not.

Mr. FELLER. There have been references in several of the letters which have been introduced recently to consultations which Mr. Patrick Butler has had with you. Is that an exception to the answer you have just given?

Mr. HOYT. I think it is perfectly evident by this correspondence between Pat and his father that he was naturally interested in our attitude on the long-term contract which we have mentioned several times covering the large tonnage that we bought from certain of

his properties of which we had an option on additional ore, and any change in the market price would obviously affect the result under his contract.

Mr. FELLER. Then your consultations with Mr. Butler would be only because you have a contract with him?

Mr. HOYT. That is right.

Mr. FELLER. In cases where you have no such contract, there would be no such consultation?

Mr. HOYT. I can't say that because manganiferous ore is a special grade produced from the Cuyuna Range, and I have often talked with Mr. Butler as to the prices and basis for selling manganiferous ore, which is not standard, which might be btained.

Mr. FELLER. Mr. Greene, may I pass you this document? It is signed by H. A. Raymond, addressed to you, dated April 23, 1935, and is taken from your files. Will you identify it, please?

Mr. GREENE. I do.

Mr. FELLER. I offer this for the record.

The VICE CHAIRMAN. It may be admitted, and with reference to the other two letters from which you read, I wonder if the writers of those letters or the gentlemen present would like to have the whole letter go in, or just the quotations from them.

Mr. FELLER. I should like to have the whole letter go in.

The VICE CHAIRMAN. Then the three letters may be admitted for the record.

(The letter referred to was marked "Exhibit No. 1375" and is included in the appendix on p. 10444.)

Mr. FELLER. Mr. Greene, do you have a contract with Mr. Hoyt's company similar to the contract Mr. Butler has with Mr. Hoyt's ocmpany?

Mr. GREENE. No, sir.

Mr. FELLER. I should like to read this letter:

> Mr. Hoyt called up today and after asking if Alex was in town, asked if I would come up to speak with him a minute. He told me of his talk with you last night and the agreement that he would see Mr. Girdler this morning. He said he had just been talking with him for an hour and a half, asking Mr. Girdler if he did not think it would be a good thing for the whole Industry if the emergency freight charge be borne by the buyers of ore. He said that Mr. Girdler told him that if he would get Mr. Block and Mr. Weir to agree that adding the emergency freight to the ore price this year would be of psychological help in getting a better price for steel in the third quarter, that he would be in favor of it.

Here may I pause to identify these gentlemen. Mr. Girdler is the head of the Republic Steel Corporation, is he not?

Mr. GREENE. Chairman of the board.

Mr. FELLER. And Mr. Block?

Mr. GREENE. Which Mr. Block? Mr. L. E. is chairman and then P. D. is president of the Inland Steel.

Mr. FELLER. In other words, it is either of the two Mr. Blocks?

Mr. GREENE. One or the other.

Mr. FELLER. And Mr. Weir?

Mr. GREENE. Chairman of the board of the National Steel.

Mr. FELLER. (Reading from "Exhibit No. 1375"):

> He said that of course Mr. Girdler and he both realized [regardless of the fact that Mr. Wysor is in Bermuda] that he, Hoyt, could not get any such assurance. Mr. Girdler felt that if this were not the case, the increase in freight rate should not be added to the price of ore. Mr. Hoyt then said he would go back and think it over and on parting said to Mr. Girdler: "Well, then, if I announce in the papers

that the price of ore is the same as last year, with the ore companies absorbing the increase in freight rate, I can consider that we have sold you a tonnage of ore at last year's price." Mr. Girdler's reply was: "Yes, we have made a deal."

Therefore, Mr. Hoyt said he wanted to announce in the papers this afternoon that the ore price has been set at $4.50 for this season, and asked if that would be alright for our company. I told him that I would have to call you on the telephone, and that it might be that you would prefer to have another talk with Mr. Girdler along the lines of if we are going to absorb this freight they ought to give us an increase in tonnage. Mr. Hoyt felt strongly that this matter must be completed today and that you would be in just as good a position to make such a plea after the prices are fixed, with the argument that the ore industry has absorbed $2,500,000 of increased freight rate and ought to get some help. I told him, of course, that is not correct, that nearly 90 percent of the ore is ownership ore, which naturally has to bear the increase, but he said it is the ore-mining end of the industry that is standing it and he thought that was a fair statement. I told him that I felt that you would like to talk with Mr. Girdler before having the price set but he said he thought it was important to get it done immediately. He then went on to further say that if a lower price would bring more business he would be in favor of making some lower price, but he thought we would have to wait until there was a real prospect of getting the larger tonnage and he thought that very likely ore prices will be lower, but that as this is a year when we are mining merely to give employment, and with so little to gain, that it was a bad time to make any change. He suggested that if he did not hear from me by 4 o'clock they would go ahead and announce the price and asked what I thought you would think of that. I said that I felt that would not be the right thing—that you surely should be advised and reiterated that I did not think the delay of a day would make any difference.

Do you recall this, Mr. Hoyt?

Mr. HOYT. Recall the subject of that letter?

Mr. FELLER. Recall this particular incident.

Mr. HOYT. Yes, sir.

Mr. FELLER. I take it that this letter correctly states the conversation that you had with Mr. Raymond.

Mr. HOYT. I can't testify as to that because that is quite a long time ago. As to the facts of my discussion with Mr. Girdler it is perfectly correct.

Mr. FELLER. Do you recall then discussing the matter with Mr. Raymond?

Mr. HOYT. I think unquestionably I do.

Mr. FELLER. Do you recall discussing it with other members of the iron-ore industry?

Mr. HOYT. Now, Mr. Feller, you asked me a few moments ago if it was the custom of the industry for one to consult with the other as to the place that they should sell their ore and I answered "no." Mr. Greene and I both have a contract—when I say "we" I mean our companies—with Republic. I said to Mr. Greene, "Now, can you get a better deal with Mr. Girdler than I can?" and he said, "I don't know."

"Well," I said, "I am going down there and see what I can do."

I went down and discussed with Mr. Girdler on that basis and it is perfectly obvious the arrangement that Mr. Girdler and I worked out affecting this long-time contract and having talked to Mr. Greene in the first place I called him up and found him out of town and I talked with Mr. Raymond and I told him just as it states there that I was satisfied with that price and that I was going ahead and announce it unless he could give me some good reason why I shouldn't, and that is what happened.

Mr. FELLER. And that price would be the price not only to Republic Steel Corporation but the market price for that year.

Mr. HOYT. It would be the market price based on our long discussions of yesterday.

Mr. FELLER. Could you tell me why Mr. Greene should not want to sell Republic at a different price from the price that you sold?

Mr. HOYT. Because he had a contract, as I understand it, which was based on some allowance off the base price.

Mr. FELLER. Then in effect he delegated to you the duty or power of making the base price by your negotiation with Republic?

Mr. HOYT. He didn't delegate or give me the power or anything else. I took it myself.

Mr. FELLER. Didn't I understand you to say that Mr. Greene asked you to go down to Republic?

Mr. HOYT. No; I didn't say that. I said to Mr. Greene, "Now, who can get the best deal with Mr. Girdler?" I didn't say what the result of that was. In any event I went down there.

Mr. FELLER. Then you thought it advisable to inform Mr. Greene as to the deal that you had made.

Mr. HOYT. Absolutely.

Mr. FELLER. In other words, you told him then——

Mr. HOYT (interposing). I didn't tell him; I told Mr. Raymond.

Mr. FELLER. You told an official of Mr. Greene's company.

Mr. HOYT. That is right.

Mr. FELLER. What would be the market price?

Mr. HOYT. I told him what my discussion was with Mr. Girdler and that I was going to give it to the papers.

Mr. FELLER. That was to be the market price?

Mr. HOYT. If it were published and recognized.

Mr. FELLER. It would have been the market price in any event. The statement in this letter indicates that that would be the market price.

Mr. HOYT. The base price.

Mr. FELLER. Don't you consider that a consultation with one of your competitors with respect as to what the market price should be?

Mr. HOYT. That isn't the question. The question was on consultation as to the price at which they should sell and to that I answered no.

Mr. FELLER. According to the custom in the industry, the sale would be at the market price and the market price would be the price at which you made this sale to Republic.

Mr. HOYT. That would be my market price, but it doesn't in any way prevent Mr. Greene and the Cleveland-Cliffs from making any price they want.

Mr. FELLER. You mean there isn't any legal compulsion?

Mr. HOYT. No; there is no compulsion or arrangement of any kind.

Mr. FELLER. But the custom in the industry is that the market price is established by the first sale, and as has been testified here, that is very generally followed.

Mr. HOYT. That may be true, but it doesn't in any way prevent Mr. Greene from selling his ore at any price he wants if he is not satisfied with the published market price and the base.

The VICE CHAIRMAN. May I ask you about how long this particular line of interrogation will probably last? I do it because it is nearly 12:30 now.

Mr. FELLER. I am almost finished.

The VICE CHAIRMAN. You have only 5 minutes.

Mr. FELLER. I should like to try to conclude just as soon as possible; if possible, early this afternoon.

The VICE CHAIRMAN. What I am trying to find out is, would you as soon recess now until this afternoon? I am thinking of these gentlemen. Sometimes you are just about ready to ask the question you have been leading up to for about half an hour, and if that is the case we will go on.

Mr. FELLER. I think we might as well adjourn now.

May I make a request on behalf of the witnesses, Mr. Chairman, that we attempt to conclude this testimony relatively early this afternoon because I think all of these gentlemen would like to get out of town.

The VICE CHAIRMAN. I am sure they are ready to quit now, as far as they are concerned. [Laughter.]

The committee will stand in recess until 2:15.

(Whereupon, at 12:30 noon, a recess was taken until 2:15 p. m. of the same day.)

AFTERNOON SESSION

The hearing was resumed at 2:30 o'clock, upon the expiration of the recess, Senator Joseph O'Mahoney, chairman of the committee, presiding.

The CHAIRMAN. The committee will please come to order. Mr. Feller, are you ready to proceed?

Mr. FELLER. Yes, sir.

Mr. Humphrey, I should like to attempt to clear up a number of points with respect to the question of the variations from the Lake Erie base price which are contained in the long-term contracts. Are there any published lists of variations on account of differences in physical specification or grade?

Mr. HUMPHREY. There are tables, I think, that are worked out for differences in phosphorus.

Mr. FELLER. Are those customarily used by the industry?

Mr. HUMPHREY. They are used whenever they come into play, the very low phosphorus for which premiums are paid becoming less and less used in the trade, but when they are used, premiums are paid for very low phosphorus.

Mr. FELLER. And those premiums, in the custom of the industry, would be uniform on the basis of that table?

Mr. HUMPHREY. If the table was adopted as the basis of negotiations.

Mr. FELLER. If it were adopted in the contract.

Mr. HUMPHREY. It could or could not be, just as the contract happened to provide.

Mr. FELLER. For the record, may I state that the practice of the United States Steel Corporation subsidiaries, that is, the Oliver Iron Mining Co., in billing to the operating subsidiaries of the United States Steel Corporation, the letter of Mr. Irving S. Olds to Mr. Thurman Arnold dated August 31, 1939,[1] which has already been referred to, states in part as follows [reading]:

On page 223 of Mining Directory of Minnesota, 1939, will be found Table 13, entitled "Ore prices for varying iron content calculations of Lake Erie selling

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[1] See p. 10329, supra.

values," which table explains in some detail the calculation of Lake Erie selling values.

Mr. HENDERSON. Mr. Feller, I understand that letter was read into the record before I came in this morning. Do I understand that the practice of Oliver or the Steel Corporation is to bill their subsidiaries on the basis of the Lake Erie price?

Mr. FELLER. That is what this letter stated.

Mr. HENDERSON. So that when a price has been arrived at, that becomes the billing price also for United States Steel, even though they are not in the market competing with the rest of the trade.

Mr. FELLER. That would appear to be correct.

Now, Mr. Humphrey, one other point. I should like to read for the record the provisions of one of your contracts, those provisions which have to do with the method of calculating the price under the contract. In order to preserve the secrecy of business arrangements, I shall omit the name of the company with which this contract was made, that is to say, the name of the purchaser, and I shall also omit reference to the number of cents of variation from the Lake Erie base price. I shall indicate that by saying "blank cents."

This contract provides as follows [reading]:

The price per ton for standard Mesaba non-Bessemer ore delivered hereunder shall be the average established market price per ton for ores of the same kind and grade sold for delivery at Lake Erie ports during the season of Lake navigation current at the time of shipping, as established for the then current single season sale and delivery by large ore dealers of Cleveland, Ohio, including Hanna, less blank cents per ton, and subject to analytical adjustment as hereinafter provided.

The base unit value for ore to be delivered hereunder shall be determined by dividing said established Lake Erie market price per ton less blank cents per ton for an ore which averages 51.50 per cent iron in its natural condition, by 51.50. The price of this ore is named and accepted on the expectation that it will average 51.50 per cent in metallic iron in its natural condition. Taking this as the standard of quality, it is agreed that in each season any total average variation therefrom in metallic iron in its natural condition shall be entitled to recognition and adjustment by increase or by abatement in price as the case may be, at the rates per unit per ton hereinafter specified; When the ore contains 50 per cent or more of metallic iron, the value per unit or fraction thereof shall be at the rate known as the base unit value, when less than 50 percent but not less than 49 per cent for such unit or fraction thereof of decrease only, the said base unit value shall be increased at the rate of one-half thereof, and when less than 49 per cent for each unit or fraction thereof of decrease only said base unit value shall be increased at the rate of 100 per cent thereof.

That is the end of the quotation.

Mr. Humphrey, do I understand correctly that in the case of long-term contracts which are related to the Lake Erie base price, the parties agree on a formula at the time the contract is entered into; they agree on a formula of variation from the Lake Erie base price and that formula then establishes the standard variation from the established price during the life of the contract? Is that correct?

Mr. HUMPHREY. Unless that is changed, if all of the terms are provided for for the period of the contract, that would be true. If some of the terms were less for annual adjustment, they would be adjusted annually. You can have just as many forms of contract as people can agree upon. There is no standard contract.

Mr. FELLER. I refer back to the statement you made this morning [reading]:

There are any number of allowances that are made, premiums and penalties that are figured on the physical qualities of the ore and that are also figured on the

commercial conditions under which the ore is sold, whether it is for a long period or a short period or for a large quantity or for a small quantity, or just the trade concession; in other words, get the business competitive.

When making that statement you were referring, were you not, to the terms which would be incorporated in the long-term contract?

Mr. HUMPHREY. The basis upon which ore was sold. Those are the things that are taken into consideration.

Mr. FELLER. In making your contract.

Mr. HUMPHREY. In making the sale.

Mr. FELLER. In making the long-term contract.

Mr. HUMPHREY. In making any sale.

Mr. FELLER. Including a spot sale?

Mr. HUMPHREY. One of the things you take into account is the length of time over which the ore is to be delivered. If it is to be delivered spot, that is one kind of a sale. If it is to be delivered over another period that is another kind of a sale.

Mr. FELLER. If to be delivered over another period, it is a long-term contract.

Mr. HUMPHREY. And it can be in varying lengths of time.

Mr. FELLER. What types of variations in time could there be in a spot sale?

Mr. HUMPHREY. I don't know what variations you mean.

Mr. FELLER. There are any number of allowances that are made, premiums and penalties that are figured on the physical qualities of ore. Those would of course also be true in the case of spot sales.

Mr. HUMPHREY. All those would be true in spot sale.

Mr. FELLER. And that are also figured based on the commercial conditions under which the ore is sold, whether for a long period or short period or for a large quantity or small quantity, or just a trade concession in order to get the business competitively. In the case of a spot sale, is the custom in the industry to take into consideration what you refer to here as commercial conditions under which the ore is sold?

Mr. HUMPHREY. Commercial conditions can be taken into consideration. The length of time is entirely out of a spot sale because a spot sale is for a single season's delivery. But there is no reason why other conditions can't be taken into account.

Mr. FELLER. Quantity, would that be a condition which is customarily taken into account in a spot sale?

Mr. HUMPHREY. It can be a very different thing to sell a big tonnage or a little tonnage.

Mr. FELLER. Is it in fact?

Mr. HUMPHREY. I think each instance is different from the other. I don't think there is any definite rule. When you have spot sales in any quantity you have a very strong market, and as a rule, under the conditions prevailing in a strong market, you can get the full price with no concessions of any kind, and obviously when conditions will permit getting the full price, you get it.

Mr. FELLER. Let me ask you this: The market today is strong, is it not?

Mr. HUMPHREY. Well, I wouldn't say so; no.

Mr. FELLER. Is it not true that at the present time the largest tonnage of ore which has ever moved on the Great Lakes is now moving?

Mr. HUMPHREY. Oh, no.

Mr. FELLER. It is very large, is it not?

Mr. HUMPHREY. What is happening is that here at the end of the season people are trying to hurry down ore to carry them through a winter of larger operations than had been anticipated. That doesn't mean that more ore has been sold. That means there have been more specifications on orders; there is no activity to the ore market. If you are talking about moving more tonnage on present specifications or enlarging specifications, yes; they have been; but there have been no sales that I know of.

Mr. FELLER. I ask you then this, and it is of necessity, then, a hypothetical question: If today a steel company came to you and said, "We would like to buy 10,000 tons of ore on spot sale," and another company came to you and said, "We would like to buy 20,000 tons of ore on spot sale," would there be a difference in price because of the difference in quantity?

Mr. HUMPHREY. Today, we could get the top price from both of them if we had the facilities to make delivery before it freezes up.

Mr. FELLER. Do you recall any instances in which you gave concessions on the basis of quantity in the case of a spot sale?

Mr. HUMPHREY. Well, I can't right now, but I wouldn't want to say it without checking up.

SIGNIFICANCE OF ORE PRICES TO INTEGRATED AND NON-INTEGRATED STEEL PRODUCERS

Mr. FELLER. Now, Mr. Humphrey, as you have testified, you are not only in the iron-ore business, you are also connected with the steel business and with one of the very large units in that business. I should like to direct your attention to the difference in the situation of a large integrated steel company possessing its own mines, and the small steel company which does not possess its own iron ore mines but must buy the ore from one of the companies represented here or one of the small companies that have been mentioned earlier.

If an increase were made in the Lake Erie base price of ore, is it not true that the large integrated company producing its own ore would receive a substantial competitive advantage over the small company which had to buy its ore in the open market?

Mr. HUMPHREY. In what respect, Mr. Feller?

Mr. FELLER. The large integrated company would be mining its own ore and would not have to pay the Lake Erie base price. Isn't that correct?

Mr. HUMPHREY. That is correct.

Mr. FELLER. The Lake Erie base price has been increased. The small company would now have to pay that increased price.

Mr. HUMPHREY. That's right.

Mr. FELLER. And unless this increased price were commensurate with an increased cost of mining in the mine of the large company there would be a competitive advantage in favor of the large company.

Mr. HUMPHREY. I don't know whether there would be a competitive advantage or not. The large steel company has a very large investment and very heavy fixed charges on the facilities that it has to own and maintain to ship its own iron ore. Now, if in times that are good, that end of the business is a profitable business, the company that owns iron ore has a profitable end to its business. In times such as

we have been going through in a number of the past years, the company that bought its iron ore had a competitive advantage over the one that owned it, because it wasn't laden down with fixed charges on small volume and it didn't have a lot of money in assets that weren't earning an adequate return.

Mr. FELLER. I think there is a good deal to what you say, but isn't this true, that the large integrated steel company would prefer to see the Lake Erie base price at a relatively high level if it were considering the competitive advantage which it might have over the small producer?

Mr. HUMPHREY. Mr. Feller, if you have your money invested in any business it is to the advantage of that business to get as high a price for your product as you can, up to the point where your price is injurious to your business, and it isn't a bit different whether you own iron ore and a steel company owns it, or whether you own it independently, or whether you are in the grocery business. You are motivated by exactly the same thing.

Mr. FELLER. We are not talking, now, about the price at which the steel itself is finally sold. Assuming the sale price of steel as between the large integrated company and the small company not having ore mines, the higher, under any conditions, the Lake Erie base price, the more disadvantageous becomes the situation of the small steel producer as against the large steel producer. Isn't that correct?

Mr. HUMPHREY. Only if the iron ore end of the business is a profitable end of the business. You can well conceive, and there have been many years, several years just past, where owning your iron ore your cost of your iron ore was in excess of the price that others were paying for it.

Mr. FELLER. Again I will agree with you there. What it comes down to, then, is this, that in times when the Lake Erie base price is less than the cost of mining iron ore, the large company is at a disadvantage—the large company owning its ore. In times when the Lake Erie base price exceeds the cost of mining iron ore, in other words in times when the iron ore business is profitable, then the small company is at a disadvantage.

Mr. HUMPHREY. Then the steel company that has an interest in iron ore is in a profitable business which the other fellow isn't in.

Mr. FELLER. How about a steel company which is not selling the iron ore, but which is using it in its own plants?

Mr. HUMPHREY. That same thing is true whether he is selling it as finished product or as a raw material. He is in a profitable business that the other fellow isn't in.

Mr. FELLER. In other words you agree with the statement I have made, that the relative advantages depend upon the amount of profit margin in the iron-ore field.

Mr. HUMPHREY. In a business, and if I am in a profitable business and you are not, then I have an advantage over you.

Mr. FELLER. I should like to ask you, Mr. Humphrey, to identify this letter taken from your files. It is signed "Ernest." The directory, I believe, shows Ernest is Mr. Ernest T. Weir, of the National Steel Co. It is dated January 18, 1930.

Mr. HUMPHREY. Yes; I recognize this.

Mr. FELLER. I offer this to be printed, Mr. Chairman.

The CHAIRMAN. The letter may be received.

(The letter referred to was marked "Exhibit No. 1376," and is included in the appendix on p. 10444.)

Mr. FELLER. The second paragraph of this letter reads as follows [reading]:

> Don't you think in view of the very keen interest in the ore situation, and the fact that everybody is after even the smallest properties, that it ought to be a good time to get the price of ore up 25 cents a ton? Even if pig iron and other conditions are not just as good, it seems to me the move should be made, indicating that ore is in a strong position and able to start out on a basis of higher prices

That letter was written by Mr. Weir.

Mr. HUMPHREY. To me.

Mr. FELLER. Yes, to you.

Mr. HUMPHREY. We have wished many times we could get the price up; that conditions would justify it.

Mr. FELLER. I believe you have already explained for the record why Mr. Weir, whose business is chiefly that of producing steel from iron ore, is interested in raising the price of iron ore. Could you repeat that again?

Mr. HUMPHREY. We are in the iron-ore business, and we want just as high a price for our iron ore as we think the business and conditions will justify.

Mr. FELLER. By "we," you mean——

Mr. HUMPHREY (interposing). Ernest Weir and myself.

Mr. FELLER. Do you consider Mr. Weir to be in the business of selling iron ore?

Mr. HUMPHREY. We are partners in the same business.

Mr. HENDERSON. In the same ore business?

Mr. HUMPHREY. Most of the iron ore, as I testified at the very beginning, which is handled by the Hanna Co., is owned by the National Steel Corporation, and we are stockholders in the National Steel Corporation, with Ernest Weir. We are partners in the business which owns this iron ore. We are together in the same business.

Senator KING. Then if you increased the price of ore, you would diminish the prices of the finished product.

Mr. HUMPHREY. I don't think, Senator, that the price of the raw material has much effect on the price of the finished product. They are separate commodities, and their prices in detail at least are fixed by competitive conditions on those respective commodities.

Senator KING. Was Mr. Weir or his company buying ore?

Mr. HUMPHREY. No; Mr. Weir and I are in the same company. This is a letter between the two of us in the same company which owns iron ore.

Senator KING. Are any of the companies interested in buying ore, or are they merely in the production and selling?

Mr. HUMPHREY. We produce iron ore, most of which we use and our surplus we sell, or some additional ore we sell.

The CHAIRMAN. When you say that Mr. Weir is a partner with you in the ore business, do you mean Mr. Weir personally or the National Steel?

Mr. HUMPHREY. The National Steel owns the ore business and the steel business, and Mr. Weir and ourselves are stockholders in the joint enterprise.

The CHAIRMAN. What about the Hanna Co.?

Mr. HUMPHREY. The Hanna Co., as I explained—perhaps you have forgotten—when the Hanna Co. properties went into the National Steel Co. we took stock for them and the management of the operation of those companies was retained in the same people, in the Hanna Co. that acts as an agent for the operation of the ore and raw-material end of the National Steel Co.'s business.

The CHAIRMAN. So that any profit that might accrue from an increased price of crude would be reflected in the profits of the steel company.

Mr. HUMPHREY. That is correct.

The CHAIRMAN. And one would tend to offset the other; is that what you mean to indicate?

Mr. HUMPHREY. No. We would hope to make money from both ends of the business. We hope to make money from the iron ore end of the business and we also hope to make money from the steel end of the business.

The CHAIRMAN. Yes, but if the steel company were paying a higher price for ore, that would be reflected, other things being equal, in a smaller profit for the steel company.

Mr. HUMPHREY. What he has in mind here I think was getting up the price of the ore on the product which we are selling. As between the two companies, so far as the National Steel Co. is concerned, the change in the ore price would ultimately make no difference in the final profit. Do you see what I mean? But it would make a difference in the total profit if we made more profit on the ore we sold to others.

The CHAIRMAN. It wouldn't make much difference to the steel company whether the price was up or down, since it was taking the ore for its own purposes.

Mr. HUMPHREY. That is correct.

The CHAIRMAN. But it would be advantageous to the steel company if the price were up on those quantities of ore which were sold to others than the National Steel Co.

Mr. HUMPHREY. That is correct, because that end of our business would thereby become more profitable.

Mr. FELLER. You testified in answer to the Senator's question that it would make no difference to National Steel Corporation in the final selling price of the product what the price of the ore was, but if the price of the ore was increased wouldn't a company competing with the National Steel Corporation bidding to buy its ore on the open market, competing with National Steel Corporation in the sale of finished steel products—wouldn't such a corporation find that its profit margin had been reduced by the amount of the increased price of ore?

Mr. HUMPHREY. If its finished product price remained the same, yes. If anybody, Mr. Feller, has to pay more for their raw materials and there is no change in their finished product price, why they don't make as much money as they did before.

The CHAIRMAN. By and large I suppose it is an advantage to a steel company to have its own ore supply.

Mr. HUMPHREY. Senator, we think that is so. Now over the past few years there have been times when we weren't quite so sure of it, when we were laden down with extremely heavy charges. We are interested in one mine, for instance—and mind you we are small

people in this business—where the taxes are about $1,800,000 a year. Now if our production in that mine is cut down from 3,000,000 tons to 500,000 tons, we aren't so happy about being in the iron ore business. On the other hand, if we can get a good volume and the iron ore business is strong and profitable, and is profitable on its own merits, then we are glad we are in that business.

The CHAIRMAN. Then the other picture is also true, I assume, that a steel company which does not own its own ore supply is at a disadvantage if the price of ore is kept up, so far as its competition is concerned, with a steel company which has captive mines.

Mr. HUMPHREY. It is just as I explained to Mr. Feller, if you are not in the ore business and I am in the ore business, if the ore business is unprofitable you have an advantage; if the ore business is profitable, I have an advantage, because I am in a profitable business that you aren't in.

The CHAIRMAN. Naturally, if the ore business is unprofitable, that changes the whole picture.

Mr. HUMPHREY. Then the other fellow is better off.

Senator KING. May I interrupt? I am interested in your statement about the high taxes. Was that tax paid to the State?

Mr. HUMPHREY. Yes, sir.

Senator KING. On just one property?

Mr. HUMPHREY. One mine.

Senator KING. Is that in Minnesota?

Mr. HUMPHREY. Yes, sir.

Senator KING. A million how many thousand?

Mr. HUMPHREY. Eight hundred thousand.

Senator KING. Nearly $2,000,000 taxes. Was that for 1 year?

Mr. HUMPHREY. Yes, sir.

Senator KING. Would it be the same every year?

Mr. HUMPHREY. Yes, sir. Well, it varies somewhat. Theoretically as the ore diminishes the taxes are reduced; practically your tax rate sometimes goes up as fast as your ore goes out.

Senator KING. Is it a tax upon production or upon the property?

Mr. HUMPHREY. It is a property tax.

Senator KING. How do they reach the value?

Mr. HUMPHREY. That is a long and involved formula that the States have to go into and they have engineers that examine the properties and it is a very complicated procedure that is gone through and fixed finally by the State tax commissions.

Senator KING. Even though you lose money in the production and sale of your ore, you would have to pay the tax.

Mr. HUMPHREY. Absolutely.

Senator KING. And you have to pay a Federal tax as well as a State tax?

Mr. HUMPHREY. Federal tax if we make any profits.

Senator KING. And an income tax upon the individual.

Mr. HUMPHREY. That is correct.

Senator KING. A corporate tax in the past.

Mr. HUMPHREY. And a lot more others.

Senator KING. Undistributed profits tax.

Mr. HUMPHREY. Yes, sir.

Senator KING. Social security tax.

Mr. HUMPHREY. Yes, sir; many that you have forgotten.

Senator KING. No, I haven't forgotten them. I don't want to enumerate them because you might claim too many credits now.

Mr. FELLER. Mr. Greene, I should like to have you identify this letter dated April 18, 1935. It is signed by Mr. H. A. Raymond and addressed to you. Incidentally, Mr. Greene, I have forgotten whether or not the record identifies Mr. Raymond. Could you state again who he is?

Mr. GREENE. Mr. H. A. Raymond is our manager of ore sales.

Senator KING. May I ask a question, Mr. Feller? Mr. Humphrey, would it be possible for the producers of ore to furnish us in a diagrammatic form the number of ore producers and their names, the number of tons of ore produced by them or shipped by them during the past 8 or 10 years, to whom shipped, the owners of the companies that buy and sell the ore and the percentage of ownership in the buying and in the selling organizations? I would like to know just the relation between all of these factors, all of these organizations and parties that produce ore and that sell ore. I want to know the names of the sellers and the amount sold by each corporation, each company, to whom sold, and then the proportion of ownership in the selling company and the proportion of ownership in the buying company, because in a number of these companies the sellers are buyers and the buyers are sellers. I would like to have a diagram, if I could have one, showing the relation of all those engaged in the mining and selling of ore, those who are purchasing ore, where partnerships and corporations exist in the buying and the selling and have that diagram show that fact.

Mr. HUMPHREY. I don't know whether Mr. Feller has all the data necessary to make that in the detail in which you express it, but I should think from the data he has he could develop pretty much what you are after.

Mr. FELLER. May I say here, Senator, that we do have a good deal of that information; however, Senator, the exact identity of all the customers and how much is sold to each of the customers is one of the most preciously guarded business secrets, and unless there were some compelling reason for putting it into the record, I think that there would be some objection on the part of the members of the industry who have already asked us to keep confidential a good deal of that sort of information. For that reason when I read the provision from a contract recently I omitted the name of a customer and also certain figures as to price.

Senator KING. I wasn't asking about prices. For instance, the gentlemen to whom I just addressed this question is both a buyer and a seller; that is, the company which uses part of the ore is also a producer of the ore. I should like to know just who the buyers were and who the sellers were of that organization with which he is affiliated.

Mr. HUMPHREY. You are asking a very difficult question, not of us because it is easy as far as we are concerned because at the present time we produce all of the ore that we use except such as we might need for some special purpose which is insignificant, but in many of the cases how much they buy and how much they produce for their own consumption varies from year to year, depending on the prices at which they can buy and the desirability of the ore that is available for them and how much they want to run their own mines and that

sort of thing, so there are a lot of complications in the question which you are asking. It would be much easier for 1 year. That is a lot of information you are asking for. You might do it for 1 year.

Mr. HENDERSON. The Senator would be interested in the statement which you and others have supplied as to how much of this goes to the companies that own the ore. Your estimate was about 85 percent. I think, wasn't it?

Mr. HUMPHREY. That is on the average. Now, in a lean year I think you would find that a higher figure.

Mr. HENDERSON. Mr. Hoyt estimated over 90 percent.

Mr. HUMPHREY. In a big year I think you would find it a lower figure, but in a lean year when volume is down and naturally people in that year take as much as possible from their own properties to keep these big charges down, I think you would find that perhaps over 90 percent in a lean year moved back and forth between owning companies.

Mr. HENDERSON. You would be interested in the testimony of Mr. Oglebay this morning which is in the record to the effect that they attempted to develop a mine which would seek new outlets and spent upward of three-quarters of a million dollars, and then abandoned it because of the difficulty of finding steel producers that did not have existing arrangements of some kind.

Senator KING. Perhaps the testimony that has already been adduced will meet with the views I have expressed in the question. I am sorry I wasn't here this morning, but the committee knows that Senator O'Mahoney and myself were compelled to be absent to attend a funeral.

Mr. FELLER. Senator, we have here a tabulation which was made by one of the companies of shipments in the year 1938. The tabulation was made by the Cleveland-Cliffs Iron Co. and my recollection is that it was not given to us under the seal of confidence but under an agreement that it might be introduced into the record. This table contains the names of various ore companies and it gives the names of various customers who are steel companies or iron companies, and it tells how much of the ore which was sold by each of the ore companies to each of these customers was ownership ore, ore sold under term contract, and ore sold on the open market. The department can not vouch for these figures and I don't know whether the Cleveland-Cliffs Iron Co. could vouch for these figures.

Mr. GREENE. I would like to say we cannot. Those are just estimates.

The CHAIRMAN. Who made the estimates?

Mr. GREENE. I presume our ore sales department, and it is made from intimate knowledge only of their own company. They are guessing about the rest.

Mr. FELLER. Would you care to have this in the record?

Senator KING. If it throws any light on this subject, but if it is a mere guess I don't think it would be appropriate.

Mr. HOYT. I would say definitely as far as our business is concerned it would be merely a guess without any knowledge at all. I would think that it might be harmful in arriving at the facts you are considering.

Senator KING. What I was more interested in was in trying to ascertain how much of the ore that is mined is mined by and sold to

and used by companies which produce steel. That has been stated and that is more important. If I have definite information as to those matters, that would answer the point I made a moment ago.

Mr. GREENE. Mr. Chairman, I would feel very strongly that that ought not to go in the record unless it went in the record with the statement that it is the personal opinion only of a salesman who has gathered that.

The CHAIRMAN. That is all right, Mr. Greene. It is not going in, inasmuch as it has been described as not a very reliable bit of information. It would appear from all that has been said that a substantial amount of the ore which is mined, is mined on properties owned by steel companies. Is that correct?

Mr. HUMPHREY. Eighty to ninety percent.

The CHAIRMAN. That, I think, is what Senator King is driving at.

Now let me go one step further. What part do the steel companies owning these resources of ore play in fixing the price or in determining the price? I don't want to use that word, which may have an adverse connotation. Would you care to answer that?

Mr. HUMPHREY. I can answer for ourselves. Insofar as ourselves are concerned, the officers of the ore company are also officers of the steel company, and we fix the price on the ore that we offer for sale. We decide whether we will take the price that we can get for it and sell it, or whether we won't.

The CHAIRMAN. Do you fix that price by and large—of course I know you can't lay down a definite rule which would apply in all cases, but by and large do your officers fix that price from the point of view of the steel company or from the point of view of the ore company?

Mr. HUMPHREY. We do it from the point of view of the ore company, because we are in the ore business and if we can't make money in the ore business we don't do business.

The CHAIRMAN. So that so far as you are concerned, the steel company does not attempt to influence the price of ore for the purposes of its supply, but it is content to take its profit, if there is to be a profit, from the profits derived by the ore company.

Mr. HUMPHREY. That is correct.

The CHAIRMAN. How about your opinion?

Mr. GREENE. Well, we are not in the same position. We are merely merchant sellers of ore.

The CHAIRMAN. I realize that, but I am asking for your opinion so far as the knowledge, your knowledge, goes of how the factor works.

Mr. GREENE. I would only like to make this comment, that inasmuch as all the steel companies own some portion of their ore, they have an excellent guide as to the purchases they make outside, and we as ore sellers know that is the fact and we know our price has to be in line with their costs.

The CHAIRMAN. Is it advantageous to the merchant producer of ore to have this situation in which the steel companies, the fabricators, own so large a proportion of the supply? Is that disadvantageous to you?

Mr. GREENE. I don't think we ever thought of it because it has existed so long we have just accepted that as a condition. We know our figures are going to be carefully checked by any steel company. If we offer them ore, our price has to be in line with their costs, because they are in the same business. They are mining ore; I mean not for sale, but they are doing that very thing.

The CHAIRMAN. They know from their own experience what the costs ought to be and what you ought to charge?

Mr. GREENE. Exactly. If our price is unreasonable they don't buy any ore from us.

The CHAIRMAN. Is there any pressure, not necessarily active pressure but is there any natural pressure, arising from this condition which you have described, to keep the price of ore down for the merchant producer?

Mr. GREENE. No more than there is always pressure by the buyer to buy as well and as cheaply as he can, and the part of the seller to realize the best. It is just normal, only we know we have to be in line with their costs.

The CHAIRMAN. Would you care to say whether or not the steel companies as a whole exert any active influence in fixing or determining the price of ore?

Mr. GREENE. If you say exert any individual effort I would say no. They exercise an influence as a whole because we recognize this situation and we know what we have got to do to get their business.

The CHAIRMAN. Then your testimony, as I understand you, is that the influence of the steel companies is merely that of a normal purchaser.

Mr. GREENE. That's right.

The CHAIRMAN. And that there is no effort upon their part to influence unduly the price that is paid for ore.

Mr. GREENE. That is correct.

The CHAIRMAN. Well, does it make any difference, in your opinion, to the steel company, whether this base price of which we have been speaking is up or down?

Mr. GREENE. I think it has got to be within reason. I think like all competitive business, the steel company wants to feel that the costs for any material is on a line with their competitors.

The CHAIRMAN. Is this price fixed by the merchant producers of ore? I don't like to use the word "fixed," I am constantly using it, but I don't mean it in the common sense—is this price determined by the merchant producers of ore without regard to the opinion of the operators of the ore mines which are owned by the steel companies?

Mr. GREENE. That couldn't be the case, because in every contract it is a result of long-time negotiations between that particular company and you, so that in all times they have got the upper hand, and what you are trying to do is to get as much as you can for your product, with a well-informed buyer.

The CHAIRMAN. So that viewed from all sides, you want the committee to understand that the steel companies, either as fabricators or producers, do not attempt to influence the price of ore except as normal purchasers.

Mr. GREENE. That is right.

The CHAIRMAN. Mr. Butler, what is your opinion about it?

Mr. PATRICK BUTLER. I don't know anything about what the steel companies have in mind, but I think the statement of Mr. Greene, and your interpretation of his statement, is correct.

The CHAIRMAN. I wasn't trying to interpret it except in the sense of trying to understand it.

Mr. PATRICK BUTLER. I am in general agreement with your discussion with Mr. Greene.

The CHAIRMAN. If there were no captive mines, what would the effect be on the price of ore?

Mr. PATRICK BUTLER. I don't believe, I don't know, but I don't believe there would be much difference from the condition that exists now.

The CHAIRMAN. Can you sell your ore for the price that you think it is worth?

Mr. PATRICK BUTLER. Not always—in fact, very seldom.

Senator KING. May I ask one question of either one? I will ask the gentleman over here: Have you discovered in these negotiations between the steel companies and the producers of ore any disposition to favor the steel company at the expense of the ore-producing company, or to increase the profits or protect the profits of the ore producers at the expense of the steel companies?

Mr. HUMPHREY. No; I have not. I agree with Mr. Greene that this business stands on its own bottom, and as to the ore that is sold, that is a strictly competitive situation between well-informed buyers and sellers who are trying to get together and who do get together for the sale of their product.

Now, the only differences, as I see it, between this and any other situation is that in this case you have a good many buyers who don't have to buy, who can mine their own stuff unless they can buy at what they think is an attractive basis.

Mr. FELLER. Mr. Chairman, a few moments ago Mr. Greene identified a letter written by Mr. Raymond to him.[1] I should like to read just one paragraph.

The CHAIRMAN. Will you give us the date of the letter now?

Mr. FELLER. It is dated April 23, 1935, written by Mr. H. A. Raymond, addressed to Mr. Greene.

The paragraph I have in mind reads as follows:

> There are two distinct methods of handling the Republic situation. The first one would be to support present prices and urge them that for the reasons Ernest Weir outlines, present prices should be supported, and that if we are going to help support them, they must do their part, not only by agreeing to take their ore at those prices and stop the Wysor "chiseling," but they also ought to give us a larger tonnage.

Mr. Greene, do you recall what the reasons were that were outlined by Mr. Weir?

Mr. GREENE. Yes, sir; I can tell you very clearly, I think, why we said that was chiseling. It is a very complicated situation. In '35 I spent most of my time in New York as we refinanced $25,000,000 of short-time loans into a long-time bond issue, and I was trying to accomplish that, so I can't give you all the details. You will recall that Republic Steel was formed in April of 1930, and it was a combination of four companies. Those four companies had themselves had some enlargements, so that there was a very complicated situation in their ore contracts which we had.

Now, in some plants we had all their business, in others we had a half. They anticipated the normal operations of these plants. After Republic got going, they naturally wanted to centralize their operations where their costs were cheapest, and they began to shift around, and the question arose, and rather a contentious one, between ourselves and Republic, as to carrying out, in the fairest spirit, where they should manufacture and who should get that ore.

[1] "Exhibit No. 1375," appendix, p. 10444.

And what Mr. Raymond felt there was that Mr. Wysor who was the president of Republic, was shifting the business away from us and contrary to the spirit and maybe the letter of those contracts, and he was bitterly complaining about it, that they ought not to be.

Now some of the matters could be interpreted two ways. You could say it was clearly our business, or you could say that it was about 60–40. They wanted a reduction in price to assume this and that, and if the whole letter was read—it is a long letter, it has a lot of figures in it, but it is all on this matter—it all indicates that Raymond felt that they were asking for something that wasn't quite fair when they said "Take off 25 percent, and so, so and so." That is what he is referring to.

It is resulting from a series of ore contracts, some small and some large, finally resting in the hands of new Republic, who desired to change the operations, and wisely so from their standpoint, of those plants. Do I make that plain, Senator?

The Chairman. I think I understand what you are saying

Mr. Feller. I don't quite recollect now whether you answered the specific question as to whether you recall what Mr. Weir's reasons were for supporting the price.

Mr. Greene. I think the same question came up in the testimony somewhere else. I think Mr. Weir had expressed the reason which was in line with what Mr. Humphrey testified, that when he had an overage in a lean year to sell, he would like to see ore prices maintained. I think it was just an expression of opinion as to the policy of selling ore.

Mr. Feller. Mr. Chairman, I have just a few more documents to introduce and then, as far as I am concerned, I shall be through with this part of the hearing.

Mr. Greene, I have here a copy of a letter signed by Mr. Brown, who is in your organization, is he not—Alex C. Brown?

Mr. Greene. Yes, sir; vice president.

Mr. Feller. Addressed, "Dear Ed." That would be you?

Mr. Greene. That is probably myself.

Mr. Feller. Dated February 28, 1937. Would you please identify this?

Mr. Greene. I identify it.

Mr. Feller. I offer this for the record, Mr. Chairman.

The Chairman. The letter may be received.

(The letter referred to was marked "Exhibit No. 1377" and is included in the appendix on p. 10445.)

Mr. Feller. I shall read this one paragraph:

> The question of 1937 market price of ore will surely come to a head shortly. This should be settled before there is any chance of Ford buying ore because it is becoming more and more likely that the large order placed by Ford each year at cut prices may become the accepted market price. Our interest in the market price is, of course, very much less than it used to be but this year it is of particular importance because of our Wheeling and Otis negotiations.

Could you tell us, Mr. Greene, what you meant by "This should be settled before there is any chance of Ford buying ore"? How would that be settled?

Mr. Greene. I think it is pretty obvious that we were anxious to get as much for our ore as possible, and that if we thought that a buyer and seller could arrive at a reasonable price, in accordance with

the testimony here, very many times, a rate was established that might be helpful in view of some pending negotiations we had.

Mr. FELLER. How would the market price be settled?

Mr. GREENE. I don't know; it isn't settled; I think that is not the correct way to put it. When a sale takes place in the early part of the season on a substantial amount of ore, and becomes known, why that establishes the market price.

Mr. FELLER. Mr. Patrick Butler, I have here a letter that appears to have been written by you—no; it does not. The letter was taken from your files and is written to you. You are the addressee. It is dated March 28, 1934. The salutation is "Dear Pat" and the signature is "Affectionately," and then there is a blank. There are typed initials on the copy which we have but they are obscured. Can you identify it and perhaps tell us who the writer was?

Mr. PATRICK BUTLER. Yes; this is Emmett Butler's letter, addressed to me. Those initials in the left-hand corner are "EB" I think.

Mr. FELLER. I offer this for the record.

The CHAIRMAN. The letter may be received.

(The letter referred to was marked "Exhibit No. 1378" and is included in the appendix on p. 10446.)

Mr. FELLER. Mr. Emmett Butler, I should like to read one paragraph from this letter.

Senator KING. That is a letter to his son, is it?

Mr. FELLER. Yes. [Reading:]

> I think possibly this would be a good time to say to our customers, particularly—

I suppose it should be M. A. Hanna & Co., those initials are rather obscure; no—

> particularly P. M. and Hanna Co., "What are you going to do with this year's business, and what price are you going to put on ore?" They will, no doubt, answer to that that they do not know because they have not had their ore meeting, and stall beyond the date that Ford has fixed to close the bidding and probably slip in a bid in the meantime. Why not tell them that we want to move tonnage and that we are either going after the Ford business in our own way or they are going to guarantee us an additional tonnage over their minimum equal to that of Ford's inquiries?

Can you elucidate that paragraph?

Mr. EMMETT BUTLER. Yes; I want to make a general statement about all of the letters that have been introduced here between my son and myself. In some cases they may mean nothing, simply a discussion between a father and a son, perhaps as to the policy of the company. In this particular letter, the reason for that paragraph was this: In the year of '32 we had a contract for the delivery of a substantial tonnage of ore. That tonnage was cut because of the steel company's inability to use as much tonnage as they had contracted with us to buy. In the year of '33 it was determined and agreed on between Mr. Hoyt and Mr. Humphrey and Butler Bros. that the price would be reduced, the market price so far as we were concerned would be reduced 50 cents a ton. Coming into the season of '34, I was naturally anxious to know whether they were going to take a volume tonnage, specified in the contract, and whether they were going again to ask us to reduce the price.

I may state that the reason for the reduction of price, and the reason that the adjustment was made, was to be helpful to me, as

well as themselves. They did not need the ore. Does that answer your question?

Mr. FELLER. Yes.

Senator KING. The contracts then were varied from time to time depending upon whether the steel company had demands for its production capacity.

Mr. EMMETT BUTLER. As you know, Senator, the years of '32 and '33 were very poor years, not only in the ore business but in every other business. People were pretty well keyed up as to whether their contracts were going to be effective at all or not. That is the reason for these discussions.

Senator KING. And were contracts from time to time during that year or succeeding years or preceding years modified between the ore companies and steel companies?

Mr. EMMETT BUTLER. I think that has always been true of every contract.

Senator KING. Departures from that apparently stable line above and below, depending upon conditions?

Mr. EMMETT BUTLER. That is right.

LAKE FREIGHT RATES ON IRON ORE

Mr. FELLER. Mr. Chairman, I have just a few questions left with the matter of freight rates. I call the committee's attention to the chart entitled, "Lake freight rates on iron ore."[1] Mr. Hoyt, your company manages a fleet of boats on the Great Lakes that carries iron ore.

Mr. HOYT. That is correct.

Mr. FELLER. Mr. Greene, your company does, too, does it not? You own a fleet?

Mr. GREENE. We own a fleet and we manage smaller fleets.

Mr. FELLER. And you, Mr. Humphrey?

Mr. HUMPHREY. Yes, sir.

Mr. FELLER. You also manage a fleet?

Mr. OGLEBAY. Yes.

Mr. FELLER. Mr. Hoyt, is it not correct to say that the Lake Erie base price includes a freight rate?

Mr. HOYT. The base price includes—delivery to Lake Erie includes the freight rate.

Mr. FELLER. It is a delivered price. The record already contains the fact that the Lake freight rate on iron ore as published in the standard sources was 83 cents in each of the years from 1925 to 1936, and then 93 cents in 1937 and 1938 and 1939. Can you explain, Mr. Hoyt, the similarity of that rate in each of that series of years?

Mr. HOYT. I think I stated yesterday or the day before that the freight rate was arrived at as between a buyer and a seller, one who has ore to haul, no tonnage, another who has tonnage and no ore to haul, the same general principle, you might say, of the base ore price.

Mr. FELLER. In other words, the factors which explain the behavior of the ore price would explain the behavior of the freight rate.

Mr. HOYT. That is a pretty general question. I don't know quite what you mean by factors. There are a great many different conditions. It is a matter of negotiation as between the fleet and someone who wants to ship ore.

[1] "Exhibit No. 1368," appendix, p. 10440.

Mr. FELLER. The fact, however, remains, does it not, that the freight rate was the same over a period of 11 years?

Mr. HOYT. That is true. It is also true that the railroads' rates have been the same.

Mr. FELLER. Are these freight rates on the Great Lakes on iron ore regulated by any governmental agency?

Mr. HOYT. No; they aren't.

Mr. HENDERSON. Is there a new rate negotiated each year?

Mr. HOYT. Yes, sir.

Mr. HENDERSON. Is it on the same basis as the first substantial contract for the movement of ore?

Mr. HOYT. It would be published on the same basis.

Mr. HENDERSON. And if you happened to have the first one, that would become the published rate?

Mr. HOYT. It would be if we had any tonnage that was not tied up under contract. In other words, the Interlake steamship that we operate has a contract for carrying ore. It couldn't establish a freight rate on that contract. It would have to be on some outside open negotiations with someone who wanted to have us carry ore and we wanted to carry it for them.

Mr. HENDERSON. In most cases it would be negotiated with a company which was likely to own the ore also, as has been testified, is that it?

Mr. HOYT. Own the ore, but not the boat.

Mr. HENDERSON. Not the boat, that is right.

Mr. HOYT. It might own the ore but it wouldn't own the boat. In other words, it would be the ore on one side and the boat on the other, coming to an agreement as to the rate.

Mr. HENDERSON. That is what I mean. Do you know in how many of those years you were the first to negotiate the contract?

Mr. HOYT. No; I don't.

Mr. HENDERSON. Were you in any of them?

Mr. HOYT. I think we probably were.

Mr. HENDERSON. Mr. Oglebay, do you recall whether yours was the leading rate in any years?

Mr. OGLEBAY. We never have been.

Mr. HENDERSON. How about you, Mr. Greene?

Mr. GREENE. I don't think so, because we have both ore and boats.

Mr. HENDERSON. Mr. Humphrey?

Mr. HUMPHREY. We are sometimes seller of vessel capacity and sometimes buyer, depending upon the season.

Mr. HENDERSON. I mean in these years covered by the charts.

Mr. HUMPHREY. In a year when we would be a buyer of vessel capacity we might well make the rate.

Mr. HENDERSON. Maybe you haven't understood me. Do you recall being the leader in any of these years?

Mr. HUMPHREY. I am quite sure we were in some years and I can't tell you in which ones.

Mr. HENDERSON. Were you in 1939?

Mr. HUMPHREY. I would have to look it up.

Mr. HENDERSON. Mr. Hoyt, do you know who was in 1939?

Mr. HOYT. No; I don't, Mr. Henderson.

Senator KING. When you were the buyer of space for shipments did you bargain to get a cheaper rate or did you accept a standard rate which had been initiated at the beginning of the shipping season?

Mr. HUMPHREY. Very much the same reasons applied to that as applied to the rest of the business. When we would be buyers, we would accept the season's rate because we would be buyers in a big year. In other words, we have boats for a substantial part of our ore, and in years when there is a bigger movement than we can carry in our own boats then we have to buy some vessel capacity and in those years the rates would be strong and we would be in a position where we would make the best deal we could with the vessel owner.

Senator KING. Do you recall whether or not at an earlier date than those we have been speaking about there were shipments of ores from this ore field by rail to the steel mills?

Mr. HUMPHREY. There was very little of that because the difference between the rail and the vessel, the all-rail rates and the vessel rates is quite a wide difference.

Senator KING. That is the rail rates were much greater than the water rates.

Mr. HUMPHREY. To most destinations.

Senator KING. Would that be the case from the ore deposits of which we have been speaking to the steel companies along Lake Michigan?

Mr. HUMPHREY. Practically all of them.

Mr. HENDERSON. Mr. Hoyt, is the matter of what the rate is of importance to you?

Mr. HOYT. It is to anybody interested in vesseling business, Mr. Henderson.

Mr. HENDERSON. Then is there any of the six of you who can remember who established the rate this year?

Mr. HOYT. I am sorry, I haven't that.

Mr. HENDERSON. It just strikes me a little peculiar that here is something which affects every ton of iron ore is moved by your company, in which you have a specific interest in what the return is on your steamships and nobody can tell who was the bellwether in the instant year, let alone any other year.

Mr. HUMPHREY. I don't think it was any of us.

Mr. HOYT. There is a lot of coal moved on which this rate might be based.

Mr. HENDERSON. On which this rate might be based?

Mr. HOYT. There are differentials as between different ports.

Mr. HENDERSON. Is there any one of those years in which the rate on something other than ore served as the basis for establishing the season rate?

Mr. HOYT. I think there have been instances when a large volume of coal was covered and rather automatically the ore rate went into effect along with it.

Mr. HENDERSON. At the same rate?

Mr. HOYT. No, sir; but on a differential which is long established in the trade.

Mr. HENDERSON. Do you have the same practice that at the beginning of the year when you negotiate a contract for Lake freight rates you announce it to the trade?

Mr. HOYT. That has been the practice.

Mr. HENDERSON. And that is how it gets established?

Mr. HOYT. Yes, sir.

Mr. HENDERSON. As I understand you, that gets to be the accepted rate base?

Mr. HUMPHREY. Yes; but we aren't the only people who buy vessel capacity, you understand that?

Mr. HENDERSON. Oh, yes.

Mr. HUMPHREY. There are others except just us who are here.

Mr. HENDERSON. But you accept that rate when you are out buying space, that was your testimony.

Mr. HUMPHREY. That is correct.

Mr. HENDERSON. And, Mr. Butler, that is the rate applied to what you move also, is it not?

Mr. PATRICK BUTLER. Part of it. Some of our ore is sold at the mine, some at upper lake ports. A good part of it is sold at the mine, and another good fraction is sold at upper lake ports, and a small percentage of it is sold at lower lake ports and that tonnage, the smaller tonnage we move at lower lake ports, the freight rate would have an effect on the price we receive.

Mr. HENDERSON. Mr. Oglebay, this rate applies to what you move for your managed company, does it not?

Mr. OGLEBAY. Yes; our boats move our own ore.

Mr. HENDERSON. You move it entirely?

Mr. OGLEBAY. Yes.

Mr. HENDERSON. And this is the rate, however. I understood your testimony was you never have established the rate.

Mr. OGLEBAY. We have accepted the rate.

Mr. HENDERSON. Do you know who established the rate this year?

Mr. OGLEBAY. No; I don't.

Mr. HENDERSON. You read it in the trade paper and that was the rate that was applied?

Mr. OGLEBAY. I don't know whether I read it in the paper. We all started doing business, the coal people and the ore people.

Mr. HENDERSON. Do you happen to know how the rate got raised in 1937? There is something which was a change from a period of 10 years, and do you know who was the leader in that year?

Mr. OGLEBAY. No; I don't.

Mr. HENDERSON. I guess we are not going to get any information, Mr. Feller.

Mr. FELLER. Mr. Hoyt, your fleet also carries grain, does it not?

Mr. HOYT. Yes.

Mr. FELLER. Are you familiar with the course of freight rates on grain on the Great Lakes?

Mr. HOYT. They vary, depending on the amount of grain that is to be moved and the scarcity of ore tonnage that is moving that year.

Mr. FELLER. The rates on grain vary tremendously in accordance with the amount of grain to be moved, but the rates on iron ore do not vary at all.

Mr. HOYT. I wouldn't say they do not vary at all. They went up in '37, and the reason for it was that the costs on the ships had gone up materially, and there was a large tonnage of ore holdings when the season started in '37. I imagine there might have been 70,000,000 tons of ore that were going to be moved.

Mr. HENDERSON. Who negotiated the new contruct?

Mr. Hoyt. There is no new contract; there is no contract about it. It would be a question of my saying "Will you take this rate?" and my customer saying he would, or anybody else that had it.

Mr. Henderson. But you don't recall who it was?

Mr. Hoyt. I am honestly not trying not to answer your question.

Mr. Henderson. I am honest too in being bewildered that nobody seems to pay attention to a thing of such importance as this. The same rate seems to come into being almost automatically every year without any mortal guidance at all.

Mr. Hoyt. Now, Mr. Henderson, there are only two or three people here and there are a great many people on the inland lakes shipping business. We are just in the ore business here. We have vessel connections. I can't tell you the details of who made the arrangement.

Mr. Henderson. You are saying you don't know, and I am saying I am honest in being bewildered about it. I think we can drop it there, since there is no evidence in the record to show, as is the case in the development of the lake business, as to how some of those get established.

Senator King. How many persons or companies employ boats upon the Great Lakes in shipping tonnage of all kinds—coal and ore and manufactured commodities, and grain and so on?

Mr. Hoyt. I think there are three hundred and eighty-odd bulk freighters that would be engaged in the ore and coal and limestone trade.

Senator King. What proportion of the 380 would be engaged in the hauling of ore exclusively from these mines of which we have been speaking?

Mr. Hoyt. I think most of the boats; I can't speak for the Pittsburgh Steamship Co., which is owned by the Steel Corporation, but most of the vessel fleets carry ore and coal. In other words, they want the coal on the return trip to lower the cost.

Senator King. Some of the steel companies own their own boats?

Mr. Hoyt. Yes, they do.

Senator King. And carry their own ore?

Mr. Hoyt. Yes, sir.

Senator King. Do they attempt to fix the prices, or do they fix prices, and your company, for instance, falls in with the minimums which are established by the steel companies' boats?

Mr. Hoyt. I don't know of any effort on their part, Senator. As I tried to explain, it is the custom in the trade that is built up over a period of years where someone who has boats and wants tonnage makes an arrangement with the man who has tonnage and hasn't the boats.

Senator King. Have you any information as to whether the rates between given ports are the same which are impressed upon the commodities by the steel companies' boats and by the boats with which you are connected?

Mr. Hoyt. The steel companies' boats, pure and simple, would not be interested in the rate except as it gave them a credit on that part of their business.

Senator King. That is what I am trying to get at. Do you know whether they established a credit which was comparable in its results with the credit which would follow from the operation of your boats?

Mr. Hoyt. No, sir; I don't.

Senator KING. Have you ever tried to find out whether their costs in transportation were the same as yours, or greater or less?

Mr. HOYT. I don't believe there is very much variation, Senator, except for the difference in management, which is difficult to determine. You have so many men on the boats and it takes so much fuel to run them back and forth, and so on and so forth.

Senator KING. Have you made any inquiry to ascertain whether the costs, the charges which are made by the boats of the companies whose representatives are here, compared with the cost of other boats? You said there were several hundred that are upon the Great Lakes.

Mr. HOYT. I haven't made any investigation, Senator, but I would assume that the costs couldn't vary very much on the same sized boat.

Senator KING. Then you think that the cost for hauling coal, as an illustration, by other boats than those represented by those gentlemen who are present, would be substantially the same as the costs which your boats would charge for hauling ore?

Mr. HOYT. Not charge; I understood you said "costs."

Senator KING. Cost, yes.

Mr. HOYT. I understand they would be about the same.

Mr. HENDERSON. When Oliver accepts the base rate it is accepting also the lake freight rate which is a component of the Lake Erie base, is it not?

Mr. HOYT. You will have to ask Mr. Olds,[1] Mr. Henderson. I don't know how they would handle that.

Mr. HENDERSON. I am not asking about the account. Let's put it this way——

Mr. HOYT (interposing). That is what it would be.

Mr. HENDERSON. The Lake Erie base has as one of its components the lake freight rate, does it not, and the testimony from a letter written by Mr. Olds is that the corporation uses that rate as a basis for its charge to subsidiaries. Was that not correct?

Mr. FELLER. Yes.

Mr. HOYT. But that might mean after deducting the lake freight, the unloading charges and the rail freight to bring the ore back to an f. o. b. mine price. That isn't inconsistent with that price.

Mr. HENDERSON. Let me ask you the first question: That freight rate, the lake freight rate, in that year when 69,000,000 tons moved, is likely to have been a component of the price exclusive of Oliver. Take any that you moved for your company, that freight rate was a component of the Lake Erie base, which was the basis for your own contract?

Mr. HOYT. I don't quite understand what you mean by a component. The rate paid to the Interlake Steamship for carrying the ore in that year was the published lake rate.

Mr. HENDERSON. But this rate for the iron-ore price includes that, does it not?

Mr. HOYT. Mr. Henderson, that is a base as if all the ore were being delivered at Lake Erie; as such it includes a lake rate, but it does not mean that ore is not sold at a great many different spots at the mine by deducting that rate and making your contract on an f. o. b. mine basis or f. o. b. vessel basis.

The CHAIRMAN. Would you let me interrupt?

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[1] Irving S. Olds, counsel, U. S. Steel Corp.

Mr. HENDERSON. If I can get this one thing I will have at least something. But if a steel company bought it f. o. b. and then bought space to deliver it at Lake Erie terminals, it would pay that rate, would it not, because that is the going rate?

Mr. HOYT. It would depend on the deal that they made with the man that was going to float the ore for them. So far as we are concerned, if they wanted us to float it in the Interlake steamships, they would pay that rate.

Mr. HENDERSON. You have about 45 boats, is that it?

Mr. HOYT. Yes, sir.

Mr. HENDERSON. Cleveland-Cliffs has 24? How many do you have, Mr. Oglebay?

Mr. OGLEBAY. We have 17.

Mr. HENDERSON. How many do you have, Mr. Humphrey?

Mr. HUMPHREY. Eleven.

Mr. GREENE. We have 23; that is an error.

Mr. HENDERSON. There are upwards of a hundred boats, and what they get for the transportation charge is included in that Lake Erie base, isn't that correct?

Mr. HOYT. Well, the base is set up as if it did include it, Mr. Henderson, but it does not mean necessarily that they pay that rate unless they have come to that settlement with the fleet that is going to carry the ores. It is the established rate generally recognized.

Mr. HENDERSON. Yes, I think I understand that.

The CHAIRMAN. Mr. Hoyt, in order to clarify my own mind, may I call your attention to the two charts which have been introduced in the record and which are standing on the easels. One of these is entitled "Iron Ore Prices" [1] and the other "Lake Freight Rates On Iron Ore," [2] and the graph shows a very stable condition of each line. That is to say, the ore price changed only twice in a period of 14 or 15 years, while the freight rate changed once in that same period. The base price for iron ore, the Lake Erie base price, includes the freight rate.

Mr. HOYT. On a delivered basis at Lake Erie.

The CHAIRMAN. That's right, so that when this base price is fixed for any particular year, it contains the freight rate.

Mr. HOYT. That wouldn't be generally so, sir. The lake freight might have been established before the Lake Erie price or afterward.

The CHAIRMAN. Well, it is unimportant when it was established, but that base price includes freight?

Mr. HOYT. Yes, sir.

The CHAIRMAN. So that when you are undertaking to determine what the base price is, or when circumstances determine it, the freight rate is known.

Mr. HOYT. No, sir; I just said it might not be known.

The CHAIRMAN. Then are we to understand that the Lake Erie base price may be altered after it has been anonunced by reason of a discovery of a change in the freight rate?

Mr. HOYT. No, sir; but if I have agreed with my customer that I will deliver him ore at lower lake ports at a certain price, I have committed myself to do that, whether the lake rate is established or not.

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[1] "Exhibit No. 1367," appendix, p. 10439.
[2] "Exhibit No. 1368," appendix, p. 10440.

The CHAIRMAN. Of course, if these charts are correct and we assume they are, having been taken from authoritative journals of the trade, it is clear that there wasn't any such variation as you describe in the base price. There may have been variations in the prices which you received but those variations are depending upon premiums or concessions, premiums, or penalties. We are not concerned with that now. I am concerned only in trying to get it clear in my own mind as to how the iron-ore price which includes the freight rate price can be determined from year to year without knowledge of what the freight rate is. In other words, is it possible for those who reach a conclusion as to what the base price is going to be for a particular season to reach that conclusion without knowing what the freight rate is going to be.

Mr. HOYT. Just as I have said, sir, I made a commitment to my customer that I will deliver him that ore. Now if the lake freight had not as yet been determined, I might be gambling on whether it was going up from the year before or down.

The CHAIRMAN. But obviously when you make that commitment, it is followed by everybody else. Now that is the testimony here and the indication of the chart, because you have said that the Lake Erie base price is that price which represents the first substantial transaction for the year.

Mr. HOYT. That is correct.

The CHAIRMAN. So when that first substantial transaction is made, it must of necessity, it seems to me, include the freight rate, or am I utterly incapable of understanding.

Mr. HOYT. No, sir; very far from it, but the fact remains as I have said before, Senator, keep in mind that we are talking about this base Lake Erie price. All right, now that is $4.50. I say to my customer, "I will deliver ore to you at $4.50." Now the lake freight in that particular year might have been established prior to that time, and I know it was going to be; on the other hand, it might not have been established and if I didn't know, I was gambling—I was taking the chance if it were up I would have to pay the excess and not the customer, and if it were down we would get the benefit.

The CHAIRMAN. What sort of a gamble were you undertaking, Mr. Hoyt, when the testimony is here that every other ore seller was using the same base price that you established?

Mr. HOYT. The same base price.

The CHAIRMAN. Yes.

Mr. HOYT. Delivered at Lake Erie port.

The CHAIRMAN. Including the freight rate.

Mr. HOYT. Yes; but it is delivered at Lake Erie ports.

Mr. HENDERSON. There was some testimony this morning, Mr. Chairman, in connection with a specific price that probably established the Lake Erie base, and a few questions to Mr. Hoyt might clear this matter up.

The CHAIRMAN. I wasn't here to hear that testimony.

Mr. HENDERSON. This morning, if you recall, we had a letter from Mr. Raymond to Mr. Greene relative to the conversation you had with Mr. Girdler.

Mr. HOYT. Correct.

Mr. HENDERSON. Now you were anxious to have that firm commitment you had from Mr. Girdler made the basis for the Lake Erie base that year.

Mr. HOYT. Correct.

Mr. HENDERSON. And you couldn't wait a day or so on that until Mr. Raymond or you had talked directly with Mr. Greene.

(Mr. Hoyt nodded his head in the affirmative.)

Mr. HENDERSON. You wanted to announce $4.50 as the rate. Now in that year, 1935, were you the leader and did the announcement of that rate which you had negotiated with Mr. Girdler become the rate?

Mr. HOYT. That is absolutely so.

Mr. HENDERSON. In that year did you know that the freight rate would be the same as it had been the year before?

Mr. HOYT. That I can't tell you, Mr. Henderson, but it might easily have been that. I did not know it.

Mr. HENDERSON. But you had at that time in 1935 a record running back to 1925 at least that the rate had never been other than the same.

Mr. HOYT. That is correct.

Mr. HENDERSON. So that you knew pretty well that when you were getting $4.50 at Lake Erie terminals that included the rate for the Lake Erie freight.

Mr. HOYT. That was my hope, certainly, sir.

Mr. HENDERSON. I don't want to destroy that smooth line of the Lake Erie rate, but you were trying to get Mr. Girdler to take the emergency freight rate and bear it himself?

Mr. HOYT. Yes, sir.

Mr. HENDERSON. And you were not successful.

Mr. HOYT. In other words, what I wanted to do was to have him agree to pay me a higher price that year than he had the year before by the extent of the emergency freight rate.

Mr. HENDERSON. Was that about 11 cents?

Mr. HOYT. Something like that; yes, sir. It may be a little more.

Mr. GREENE. That is right.

Mr. HENDERSON. Then so far as the Lake Erie base is concerned that year, it ought to be 11 cents lower, should it not?

Mr. HOYT. No, sir; as he would not agree to that as has been testified. It meant that the ore people that year absorbed that extra freight charge.

Mr. HENDERSON. Just as they absorbed in that year also the 83-cent rate?

Mr. HOYT. Yes, sir.

Mr. HENDERSON. So that when you negotiated that contract you knew pretty well that that $4.50 was going to include the 11 cents emergency and very probably the rate which had been in effect for quite a long time?

Mr. HOYT. Well, I hoped it would; yes, sir.

Mr. HENDERSON. But before when you had negotiated a contract which became the Lake Erie base, you had confidence, did you not, that that would continue?

Mr. HOYT. You mean the lake freight?

Mr. HENDERSON. Yes.

Mr. HOYT. I can't say I had it as a matter of confidence. I tried to explain that.

Mr. HENDERSON. Let me ask just one more question on that. When you were talking to Mr. Girdler the letter states he told you to get Mr. Block—whom I understand is from Inland—and Mr. Weir from National—to agree that adding the emergency freight to the ore price this year would be of psychological help in getting a better price for steel in the third quarter and that he would be in favor of it. Is that correct?

Mr. HOYT. That is what Mr. Girdler stated. You might read the balance of it, though, Mr. Henderson. I replied I couldn't do that—I think, something to that effect. In other words, that was a joking way of telling me if I could go out and do the impossible, he would pay it to me.

Mr. HENDERSON. But there was a recognition on both your parts that an increase in this price, this 11 cents, or any increase in the ore price was likely to be used as a basis for an increase in steel prices or a justification for it.

Mr. HOYT. No, sir.

Mr. HENDERSON. How did he interpret that psychological help?

Mr. HOYT. He put this up to me:

> If you can go and persuade these steel people that by raising the price of ore you will raise the price of steel, I will raise the price of ore, but if you can't—

Which he obviously knew I couldn't, not being in the steel business, he said:

> I will pay you what I paid you last year.

That meant that already my cost to the mine had gone up by 11 cents.

The CHAIRMAN. Let me interrupt, please. I want you to know the committee feels very much indebted to you for the manner in which you responded to our questions. I should like to ask each of you if you have the opportunity for you to state to the committee what function you think competitors ought to be free to perform in consulting with one another with respect to matters of price. I am always conscious of the fact—I think all of our members are conscious of it—that in these inquiries there is a feeling upon the part of those who are called before us that the committee is endeavoring to find out some wrongdoing. That isn't the case at all. Our interest in all of the phases of the various industries that come before us is prompted by a desire to learn what, if anything, can be done to bring about a greater degree of prosperity for business as well as for the rank and file of the people of the United States. That is the purpose of all these inquiries, particularly the purpose with respect to the manner and form of the determination of prices. Perhaps Mr. Henderson and other members of the committee may pursue this matter while I am gone. My understanding is that the committee at the conclusion of this hearing will recess until Monday morning. Would you care to state who the witnesses will be?

Mr. FELLER. The witnesses next Monday will be, first, Professor de Chazeau, an authoritative steel economist who will testify with respect to steel prices in the war situation. He will be followed by witnesses of the United States Steel Corporation.

I may also say at this point, Senator, that I have no more testimony to elicit on this phase of the hearing.

QUESTION OF MODIFICATION OF EXISTING LAWS TO ALLOW MORE FREEDOM FOR BUSINESSMEN

The CHAIRMAN. May I say, Mr. Hoyt, that I have glanced over these various letters this morning. On the letters presented this morning your name appears frequently. It would appear that various members of the industry have at least consulted you occasionally or frequently with respect to what the price should or should not be. Perhaps you might by reason of that experience be well qualified to suggest to the committee what businessmen ought to be free to do without fear of violating the antitrust laws.[1]

Mr. HOYT. You mean you would like me to answer that question, sir?

The CHAIRMAN. I think it might be illuminating if some expression of that kind were to be made, but I am sorry that I can't stay here at the moment for it. If these questions proceed I might be back, if you will have the patience to stay.

(Mr. Henderson assumed the Chair.)

Mr. AVILDSEN. Mr. Hoyt, I would like to suggest if you would like to take a little time to think about that and submit a written statement to the Committee of your opinion on that subject, you might prefer to do that.

Mr. HOYT. I think I would like to do that.

Mr. AVILDSEN. I realize it is a very serious question and we would like your considered judgment, not just an offhand opinion.

Mr. HOYT. I think I would rather do it.

Mr. AVILDSEN. How do you feel about it, Mr. Henderson?

Acting Chairman HENDERSON. I didn't hear the statement.

Mr. AVILDSEN. I say that is a pretty big order to ask a man to express an opinion on how far a businessman should go. I said we would like to get Mr. Hoyt's opinion and if he would like to take a little time and submit a written statement to the Committee, it might be of more value to the Committee to have his considered judgment.

Acting Chairman HENDERSON. I am anxious to get it, but I want to check on what the Senator has said. Perhaps we would be able to get both, Mr. Avildsen, because when you get a statement, you don't have the advantage of the competent witnesses before you for exchange of views and interrogation.

Mr. AVILDSEN. Except that Mr. Hoyt would be glad to come back to the committee, I am sure.

Mr. O'CONNELL. I think it is entirely a question of what Mr. Hoyt is willing to do. If you feel in a position to make any comment in answer to Senator O'Mahoney's question, I think we would be very much interested in hearing it.[1]

Mr. HOYT. I am frank to say I have been in the iron ore business, as you know, for the last nearly 30 years, and I have considered myself from that standpoint as trying to do the best I can to make the business interests in which I have a connection, and in which other people have an interest, as profitable as possible.

Now I don't know as I have thought it out from the standpoint of economics. I don't consider myself an economist, and I would hesitate to make an extemporaneous speech on a subject as big as

[1] See footnote 1, p. 10385, infra.

that right offhand this afternoon. I would much prefer to think it over and give you a statement on it.

Acting Chairman HENDERSON. Maybe if I indicate some of the things that I am interested in personally, and in which I think other members of the committee are also interested, it might serve as something of a basis for your comment. I am not going to try to summarize this hearing. I think, however, Mr. Hoyt and other members of the industry, that the suggestion which Mr. Reynders put forward as to the depleting nature of the product which you deliver, may put your commodity and your business transactions into a different frame of reference from a manufactured product. Certainly in the development of legislation relating to coal, for example, which is a disappearing resource, and so far as the conservation and disposition of oil are concerned as our previous hearing showed, different considerations have entered. You not only have a different type of cost, as Mr. Humphrey indicated, but you have a question also as to whether or not you will dispose of that resource at what the price happens to be. And then there is another consideration which was mentioned in the letter to Mr. Greene by Mr. Raymond which I think perhaps makes your industry have a somewhat different status. I refer to that portion of the letter in which he says [reading]:[1]

> * * * * this is a year when we are mining merely to give employment, and with so little to gain, that it was a bad time to make any change.

I think those of us who were familiar with the working conditions and what the demand for employment was in the Upper Peninsula and the Minnesota regions are somewhat cognizant of the effort made by the mining companies to give employment and in that way suffered a considerable outlay of their assets.

I think it is clear from the testimony and the evidence that has been introduced that there are discussions constantly going on in your industry as to the conditions of the exchange of your product, and that the question of what is the base price is of large importance since all your contracts are tied to it. It would be decidedly fatuous for anybody to assume, it seems to me, that a normal and sometimes an extraordinary amount of effort would not be exerted by responsible executives in the industry toward getting and maintaining a continued price which let them make their adjustments in terms of tonnage, and the like.

I would like to comment also that of course what is introduced here is very fragmentary. We might as well face it that it is just what the investigators happened to get, and some of it may have a meaning which when read in public has a different shorthand interpretation to others. But taken by and large, the job of an investigating group is at best a matching of wits. Because of the circumstances under which business is operated and the laws to which the Senator has referred, there is a matching of wits as to what evidence can be adduced, but it is certainly clear to me that there are price consultations and a certain amount of leadership in the selling of ore.

Another thing which might affect considerations as to what public policy should be toward conversations affecting pricing policies, is the fact that within a small number of companies, nearly all of the important outlets are combined. As Mr. Oglebay testified, the

[1] "Exhibit No. 1375", appendix, p. 10444.

opportunity for getting a large outlet for the development of an independent mine is relatively small, and that means that each one of you producers, as I see it, is peculiarly aware of the effect of what you do on the business of others—I think it was said there are 10 in this industry. You can't escape that what you happen to do about a contract, particularly in the way of price posting, is going to be of serious import to your competitor, and if the Ford contract in any one year, due to the known bargaining ability of large, able companies, did result in a rate which you could not accept, you would either have to abandon the existing method of determining the base rate or alter the way in which you compete. I think that that is very evident from the testimony.

I think another thing that needs to be taken into account in any statement you would submit to the committee is the relationship that exists between the ore companies and the steel companies. The testimony has shown very definitely that the joint ownership of ore and steel companies is a factor, and I think while the evidence before us doesn't establish it to any great verity and exactness, there is no doubt but that a producing steel company does have as part of its cost at least some of the cost of its ore company. Therefore there is an influence, maybe psychological as Mr. Girdler put it, but certainly an influence upon the steel price, and whether the price is low or high is of decided interest, because of the relationship that exists between the ore companies and the steel companies. A low price would be decidedly disadvantageous, not only from the standpoint of the realization on the ore itself, but also on the price of the finished product, because a steel company does not collect for its ore until it has collected for that finished product. That is where it collects.

I think if the representatives of companies that do not have relations with steel companies want to comment they might very well indicate to the committee some of the problems that they encounter in trying to get business as against the companies that do have those relationships. One of the things that impressed me, running through Mr. Patrick Butler's letters as they were presented here, was the situation with which that company evidently was confronted. Butler Bros. had to make a decision from time to time whether they would go along, whether it was the better part of expediency in the continuance of a long-established company to go along, or whether or not the time hadn't come, as Mr. Emmett Butler said, to make their own price rather than let somebody else make it for them. That is always the problem of a small unit competing against either a larger unit or a unit that has decided outlet advantages.

This is merely a running characterization, entirely impromptu, of some of the things which I see have been brought forward in this hearing. If Mr. Humphrey or Mr. Greene, Mr. Butler, or Mr. Oglebay or yourself want to comment on any of those, I would be glad to have them now, or have you submit them later.

Mr. Hoyt. I would like to make just one comment, Mr. Henderson, and being an iron-ore peddler I would hesitate to make any general statement after the statement that you have so ably made. I do feel this one thing that I would like to leave very definitely with you and the committee. Mr. Feller and his associates have in their files copies of actual contracts covering deliveries of ore and prices received as between a customer and seller. They have been very courteous in

saying that was, you might say, a trade secret of the individual companies in the industry, and it would be a very unkind thing to lay them out as a matter of public record, so that I would know what my competitors have done with people I have tried to sell ore to over a period of time. I assure you, however, that from my general knowledge of the industry that those contracts are about as varying in amount, varying in tonnage and price and all of the other qualifications as could be found in any absolutely competitive industry.

Now any further statement, I feel that I would rather submit at some other time.[1] I will come down again if you would like me to, but I did want to just leave that word with you as a distinction between what has been testified to to such a great extent and where the confusion has grown up in the minds of the committee as to the difference between a base, which has been a trade custom over a period of a great many years, and the dollars and cents actually received from a customer by a seller.

Mr. PATRICK BUTLER. Mr. Henderson, maybe it might clarify some questions in the minds of the committee if I made this statement: It seems that my correspondence seems to be the entering wedge for most of this testimony. In some of my letters I referred to consulting Hoyt or Humphrey as to price. I hope the committee will bear in mind whenever I discussed price, iron-ore prices or market prices, with either Mr. Hoyt or Mr. Humphrey, I was in the position of a seller talking to a customer. They both bought ore from us.

Acting Chairman HENDERSON. Comment on that would open up a large area which would lead into the Ford business and what the effect of that Ford business is on the rest of the industry.

Mr. PATRICK BUTLER. The Ford business might be a factor——

Acting Chairman HENDERSON (interposing). You weren't talking to them, Mr. Butler, when you were talking about the Ford contract, of selling them the Ford contract, were you?

Mr. PATRICK BUTLER. No; I was talking about——

Acting Chairman HENDERSON (interposing). So you were not talking to them as a seller in that case?

Mr. PATRICK BUTLER. Indeed I was.

Acting Chairman HENDERSON. Seller to them?

Mr. PATRICK BUTLER. Selling to them, because what I quoted Ford might have an effect on the price they would pay me, because my price to them was based on the market price.

Acting Chairman HENDERSON. Certainly; I think that was very clear.

Mr. PATRICK BUTLER. I didn't know whether it was or not. I wanted to make it clear.

Mr. AVILDSON. Mr. Feller, could you tell the committee anything about the prices in these contracts to which Mr. Hoyt referred. Are you familiar with them? Would you substantiate the statement he made that there is a substantial variation in the prices?

Mr. FELLER. It is perfectly correct to say that these long-term contracts contain prices which result in a different cost to the various purchasers of ore. If there has been any misunderstanding about that, I am sorry. We attempted to make it clear there were variations in those contracts. The point to which we were directing our attention

[1] In a letter dated Nov. 9, 1939, addressed to Senator O'Mahoney, Mr. Hoyt submitted his response to the question. The letter is included in the appendix on p. 10453.

was that in most of these contracts—let me amend that to say in many of these contracts—the Lake Erie base price was the standard. Consequently we were not saying anything with respect to the uniformity of the price charged to the various producers.

What we were directing our attention to was the movement of price over a period of years, and for that reason we concentrated our attention on the standard of the industry, which is the Lake Erie base price. There has been no testimony given here that I can recall to the effect that the prices were uniform to all buyers. They are not.

Mr. AVILDSEN. You mean the Lake Erie base price is something like a catalog price and there are various discounts given to people from the catalog price. Is that it? I really don't understand.

Mr. FELLER. There is a good deal of evidence in the record which could be consulted in answer to this question. As has been pointed out in the case of many of these long-term contracts, the buyer and seller of ore sit down together and negotiate a contract, negotiate certain terms. In many cases it is a term of the contract that, "We will sell you so much ore per year at a price which will be so many cents below the Lake Erie base price," and there are other provisions in metallic content and for other physical characteristics.

Now, in the following year if the Lake Erie base price were to go up the contract price would follow accordingly. If the Lake Erie price were to go down, the contract price would follow accordingly.

Mr. GREENE. Mr. Henderson, I would like to make a little addition, not of a general nature. There was a certain reference in a letter to one of our principal customers, and both Mr. Raymond in his letter, and I, expressed some rather strong terms, the contentious difficulties we had had over that contract. I should have added that we both recognized that the contract based on the operation of those individual units was almost impossible, and shortly after that that contract was replaced by a general contract, and those difficult and contentious matters were removed.

Acting Chairman HENDERSON. So far as the Republic is concerned, they do have a dual consideration as to the treatment of the price they pay for ore. Is that not so? That is the language that was read. If they have a high price for the ore they have a good realization on that so far as their mines are concerned; however, when it gets into the basis for their pricing of finished products, it does tend to make the price higher. If they have a low cost for ore they would have a lower base for the ore cost in their price, and they would have a wider margin, and therefore the steel company would pick it up. Is that not correct?

Mr. GREENE. If I understand you correctly, I think it is.

Acting Chairman HENDERSON. Mr. Humphrey, do you desire to make any comment or observation?

Mr. HUMPHREY. I think, Mr. Henderson, that all the facts that I can give you have been brought out, that I have in mind; and as to a recommendation that might be made to the committee, I would much prefer to think that over. I think, guided by the remarks you have made which are very interesting, we might be able to make some suggestions, but I would like to think about it and study it over.

IRON ORE RESERVES

Mr. AVILDSEN. Mr. Feller, has there been any evidence introduced here as to the known reserves of iron ore, how many years' reserves there are in sight, and so forth?

Mr. FELLER. No; and as a matter of fact I should like to answer that in a somewhat carefully prepared statement that I have, as I anticipated that question somewhat earlier. I should like this for the record [reading]:

The Department of Justice made inquiries into the problems pertaining to the total amount of available iron ore reserves and the ownership thereof. Upon the department's request, all the major ore companies submitted figures showing their estimated reserves. These figures were for the most part the same ones which the companies had previously submitted to the States of Minnesota, Michigan, and Wisconsin for taxation purposes.

According to the Minnesota Mining Directory for 1939, the total reserves for the whole area were about 1,400,000,000 tons of merchantable ore. This total represents ores which are mined in open pits, and therefore can be fairly well estimated, and also ores which are mined underground, and are more difficult to estimate.

This, along with other difficulties inherent in the nature of the problem, has prompted the department, with the iron ore industry's approval, to use figures of ore shipments rather than ore reserves in order to show the relative importance of the component parts of the industry.

I should like to add to that, that it is my understanding that the Federal Trade Commission is about to release a report shortly which will cover the question of available iron ore reserves. I should also like to add to that, that I understand that there are varying estimates of the length of time that it would take to exhaust the available ore deposits. The Lake Superior Iron Ore Association directory states, on page 12 [reading]:

The Lake Superior region is expected to supply most of the iron ore requirements of the United States for an almost unlimited time.

That is the end of the quotation. I may say that other sources are much less optimistic about the length of time which this supply would take us to exhaust.

Acting Chairman HENDERSON. Mr. Emmett Butler, do you desire to make any statement now, or do you wish to avail yourself of the opportunity of submitting something later?

Mr. EMMETT BUTLER. I may avail myself of the opportunity later.

Acting Chairman HENDERSON. Mr. Oglebay?

Mr. OGLEBAY. I rather think I would, later.

Mr. AVILDSEN. I think it would be interesting to get the opinion of these men as to the amount of known reserves of iron ore. You say there is a difference of opinion, Mr. Feller. Would you mind asking these gentlemen their opinion? I could. Would you tell us, Mr. Hoyt, what your opinion is as to the known reserves?

Mr. HOYT. I think in the opening statement that I made I indicated that there had been shipments from the Lake Superior district of about 1,700,000,000, and it was estimated generally that there was about 1,400,000,000 of known reserves. Of that amount about 1,245,000,000, according to the recognized figures, are in the State of Minnesota, and about 150,000,000, or somewhere in that neighborhood are listed in Michigan, and 5,000,000 or so in Wisconsin. That is, of known ore of commercial grade.

I also added in that statement that there were unknown quantities of low-grade ore which would not now be commercial, but that as the processes of beneficiation which the whole industry has been working upon for many years improve, and the high-grade ore supply is less, this low-grade ore being made commercial will have taken its place, and that is the reason for the statement that Mr. Feller made, that this ore up here in the Lake Superior district would take care of the requirements of the steel industry for an unknown period.

Mr. AVILDSEN. That is your opinion, too?

Mr. HOYT. That is my opinion.

Mr. AVILDSEN. You don't believe we have a problem of a conservation of a natural resource?

Mr. HOYT. I don't believe we have.

Mr. AVILDSEN. Is that the opinion of the rest of the gentlemen? Is there any comment otherwise?

Mr. HUMPHREY. I think the only opinion to be added to that is that the farther you go in the treatment of lower grade ores, the higher the cost becomes. There is a cost factor that naturally the higher grade ores of today are cheaper than ores probably will be as beneficiated, although they have made great strides in beneficiation in reducing cost, and there may be developments in that field that will offset it.

Mr. O'CONNELL. I might address a rather collateral question to Mr. Hoyt. My thought was occasioned by a reference in one of Mr. Raymond's letters to the fact that during this year the industry was mining merely to give employment, and it occurred to me that you might have some general information as to the results of technological change in the production of ore and its effect on employment levels in the industry. Do you see what I have in mind?

Mr. HOYT. Well, back in '32, the period of '32–3–4, there was no question that operations were carried on, particularly in '32 and '33 and every effort was made by the mining companies to continue some sort of operation to keep their employees alive and fed and clothed. As I have stated before, so far as the open pit mining is concerned, development and all such work was carried on to a maximum amount up to resources available which did not lead to the production of ore, which could not be shipped down the lakes.

Mr. O'CONNELL. My particular inquiry was intended to be a little broader than that. I wondered if you had any general or specific information as to the effects of technological change in the production of ore on employment in the industry, in the iron ore production industry generally, over a period of years. Has the result of technological change been to substantially decrease the number that can be reasonably employed in the iron ore industry?

Mr. HOYT. I haven't any figures. Of course there have been a great many improvements in ore mining as there have been in all other industries, better methods of mining, using underground tuggers and things of that sort as against the pick and shovel, and larger units in the open pit mines in the way of shovels and so forth. I haven't any information available in my mind as to how that has affected the general number of employees.

Mr. O'CONNELL. I had heard it said that as in other industries, technological developments in the iron ore industry had proceeded to such an extent that the necessary employment to produce a given

quantity of ore was very substantially less than it was in recent years, than it was a few years ago, let us say, or 10 years ago.

Mr. Hoyt. Offhand, so far as our company is concerned, taking the same mines we were operating 10 years ago on a full basis of production, and comparing those same mines with, say, the operation in '37, I think there was a difference of just a few hundred men out of, say, 3,500.

Mr. O'Connell. I have no other questions.

Acting Chairman Henderson. If there are no other questions I think we can recess now until Monday morning at 10:15.

Mr. Feller. Yes, sir.

Acting Chairman Henderson. Thank you, gentlemen.

The committee will stand in recess until Monday morning at 10:15.

(Whereupon, at 4:40 p. m., Friday, November 3, 1939, the committee stood in recess until 10:15 a. m. Monday, November 6, 1939.)

(Testimony on the Iron and Steel Industry is resumed in Hearings, Part 19.)

APPENDIX

Exhibit No. 1349

MAJOR CHARACTERISTICS OF THE IRON AND STEEL INDUSTRY

(This pamphlet has been prepared primarily for the convenience of the members of the Temporary National Economic Committee. It obviously does not constitute a complete description of the industry. In its preparation the most authoritative and accessible secondary sources have been utilized.)

Major characteristics of the iron and steel industry, which it is well to bear in mind during the course of the hearings, are the character of the productive process, the relative importance of the industry, the great variety of products manufactured, the geographic concentration of production facilities, the domination of a few important companies, the cost structure of the industry, and the method of pricing steel products. Each of these subjects is discussed briefly in the following sections of this pamphlet. A final section on the performance record of the industry completes this presentation.

1. The Manufacture of Iron and Steel Products

FLOW OF MATERIALS

The production of steel begins at the blast furnace, where iron ore and other materials are melted to emerge as raw iron, commonly known as pig iron. Pig iron is further purified in Bessemer or open-hearth furnaces together with scrap iron and scrap steel to produce molten steel of specified chemical composition. The latter is solidified in moulds to form ingots, which are then subjected to rolling, pressing, drawing, and other operations at controlled temperatures. The finished rolled products may then be further finished by coating (e. g., with tin or zinc) or by further fabrication into a multitude of products adapted to particular uses.

This flow of materials through successive stages of production to finished rolled steel products is illustrated in Diagram I prepared by the National Resources Board. Quantities of materials consumed and products manufactured in 1937 were used in the construction of the diagram and are indicated in millions of gross tons. In addition to depicting the various raw materials used in production of pig iron, the diagram indicates the output of by-products, the importance of scrap in the manufacture of steel, the dominant use of pig iron and ferro-alloys for steel making and of steel ingots for finished products, the role of exports and imports, the more important rolling mill products and the major consuming industries.

INTEGRATION OF PROCESSES

The production process analyzed in Diagram I may be carried out completely in the various departments of a single plant or in various plants of a single company. Such plant or companies with pig iron, steel making and rolling facilities are known as "integrated." On the other hand, some plants or companies begin with the production of steel (using purchased pig iron and steel scrap) and roll steel products. These are "semi-integrated." Finally there are plants or companies which either produce pig iron exclusively for sale (merchant furnaces) or manufacture further rolled or finished products from purchased rolled steel entirely. These are "non-integrated."

DEFINITION OF THE INDUSTRY

Broadly speaking, the iron and steel industry comprehends the manufacture of crude iron and steel and the rolling of finished steel products, beginning with the blast furnace and ending with the finished hot-rolled product. In an economic

PHYSICAL FLOW FROM RAW MATERIALS TO FINISHED PRODUCTS
IN THE IRON AND STEEL INDUSTRY 1937
(ALL FIGURES IN MILLIONS OF GROSS TONS)

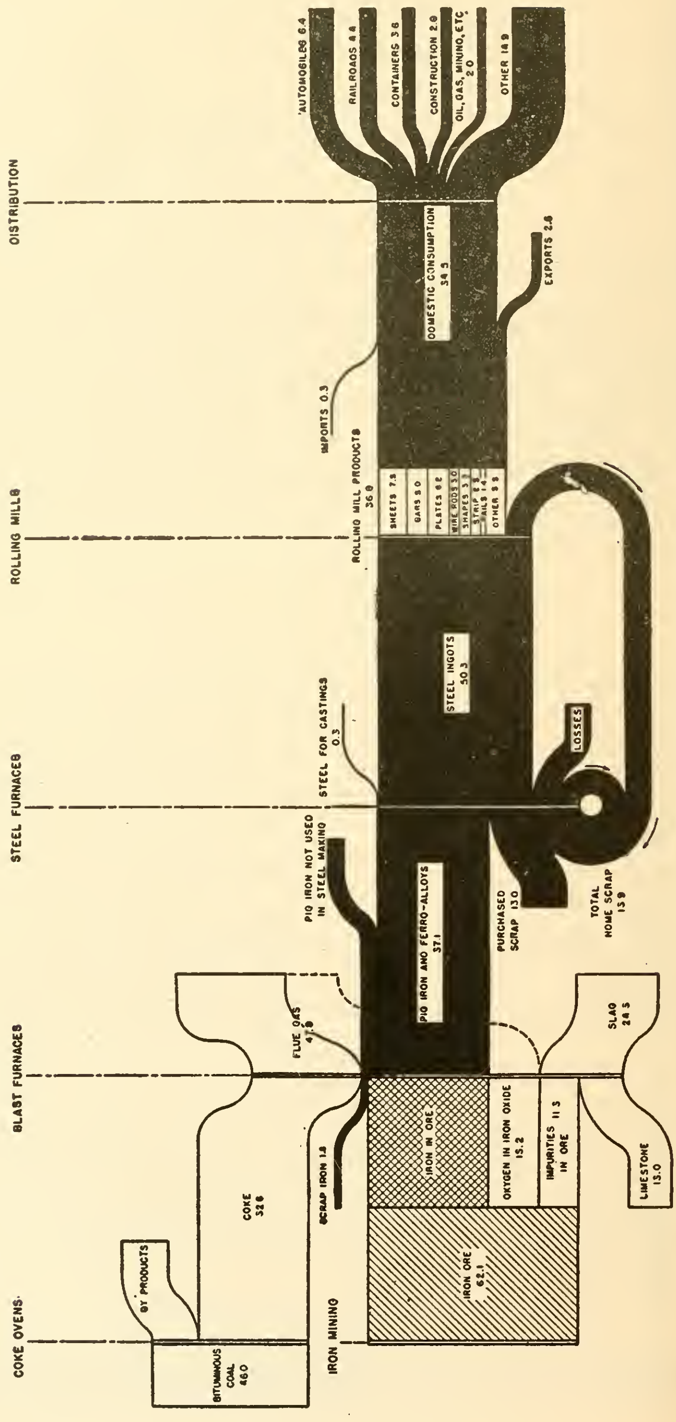
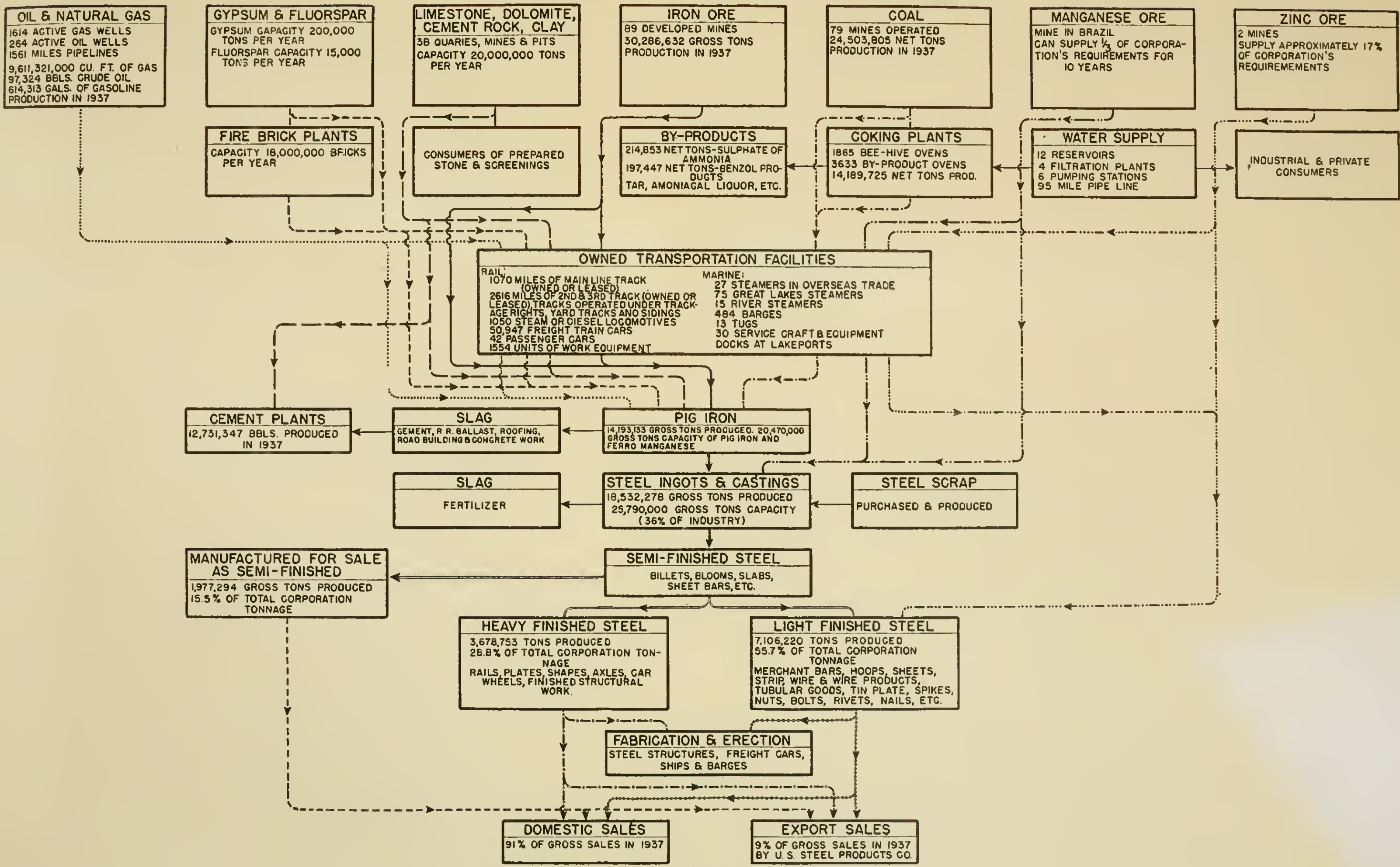


CHART I

UNITED STATES STEEL CORPORATION-1937

STRUCTURE AND ORGANIZATION BY FUNCTION

TOTAL ASSETS $1,918,729,289.00



TOTAL SALES IN 1937-$1,086,762,477 EXCLUSIVE OF INTERCOMPANY SALES

PREPARED PRIMARILY FROM THE REGISTRATION STATEMENT OF THE CORPORATION FILED WITH THE SECURITIES & EXCHANGE COMMISSION MAY 11, 1938 AND FROM THE CORPORATION'S 1937 ANNUAL REPORT.

analysis of price and distribution characteristics, however, this definition is inadequate, for it comprehends a wide range of products which differ fundamentally from each other in value per unit (and, therefore, in economic mobility), in scale and technique of production, in the geographical dispersion of consuming areas with relation to centers of production, in size and geographic concentration of customers, in the availability of potential substitutes for a given use, and in methods of distribution employed. Although most steel is "tailor made" to exact specifications within narrow limits of tolerance—and, therefore, is almost completely homogeneous for any given specification irrespective of source—multiplicity of product characteristics requires a breakdown of the "iron and steel industry" into almost as many "industries" as there are products. For certain broad purposes, however, iron and steel may be classified in five general categories; pig iron, semi-finished steel, tonnage steel, alloy and tool steel, and further finished steel. Broad differences in the economic characteristics of these classes of products are described in the section entitled "Products."

On another account restriction of the definition of the industry to blast furnaces, steel works and rolling mills is unsatisfactory. In actual practice few if any integrated producers restrict their activities to these stages in the productive process. Ownership and control extend back through the manufacture of coke to raw materials such as iron ore, coal and limestone quarries. Through by-products of the coke oven and the blast furnace, steel companies become important producers of gas, ammonium sulphate, coal-tar derivatives, and, partially as an outlet for slag, of cement. Vertical integration has led them into transportation where some are important owners of railroad and water transportation facilities (both ocean and inland waterway). Outlets for steel are assured by entrance into construction and manufacturing (including shipbuilding, bridge and other structual fabrication and erection, and the manufacture of culverts, office equipment, and other steel commodities) as well as the further finishing of rolled steel products (such as the manufacture of wire and wire products—nails, staples, and fencing, pipes and tubes, tin plate, formed-roofing products, etc). Distribution is provided for by the acquisition of chains of iron and steel warehouses.

Throughout the history of the industry the trend has been toward greater rather than less integration of this type. Although this conception of the industry violates the boundaries of many other industries, it is one that must be employed for many purposes. Available published data on investment, capitalization and earnings are given on a company basis which will not permit a functional breakdown. Illustrative of the complexity of the operations of such integrated iron and steel companies are the two charts (I and II) showing the approximate organization of the two largest steel companies—the United States Steel Corporation, a holding company, and the Bethlehem Steel Company, an operating company.

2. The Relative Importance of the Iron and Steel Industry

Among the major industries in the United States, the iron and steel industry is one of the most important in value of product, value added by manufacture and number of wage earners employed. In 1937, it was ranked first according to each of these criteria by the Census of Manufactures. (See Table I. It should be noted, moreover, that the census classification substantially understates the relative importance of the industry as it is customarily defined.)[1]

In terms of total invested capital (as shown in Table II), the iron and steel industry ranks third among the most important American manufacturing industries. Measured by output of pig iron and crude steel, the United States has long been the most important producer in the world. In 1937 this country accounted for roughly 37% of world pig iron production and 38% of the output of crude steel, almost 2½ times the production of its nearest rival, Germany. (See Table III.)

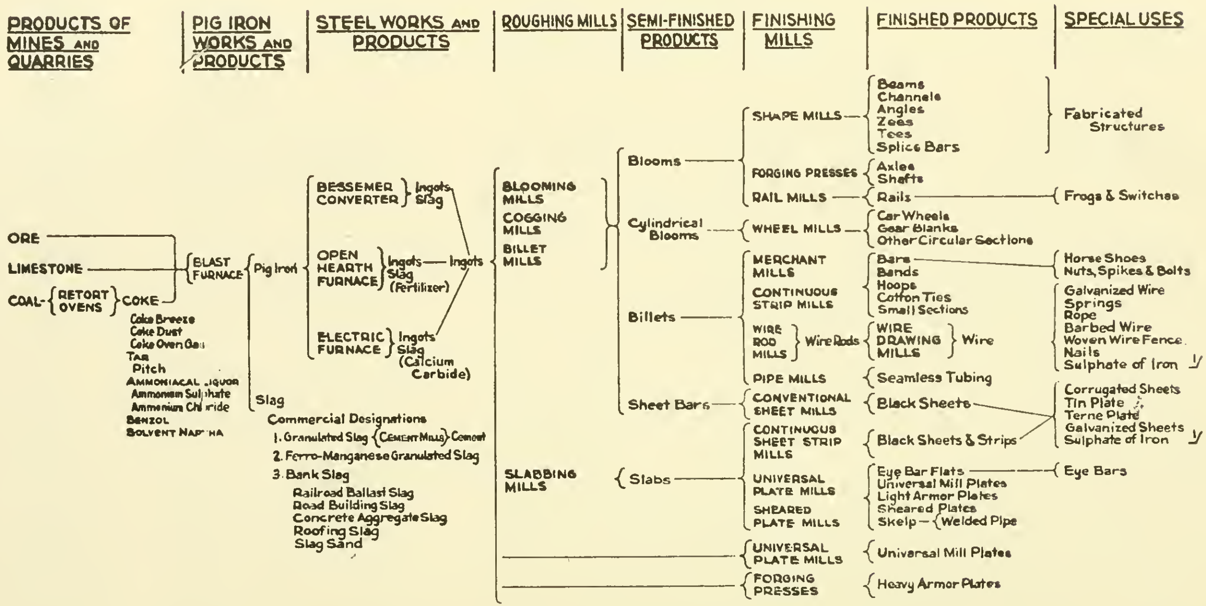
3. Products

A diagrammatic picture of major products and types of mills at various stages in the manufacture of steel is given in Chart III. More detailed than the flow chart shown in Diagram I, it may be advantageously compared with the latter. Attention is directed particularly to the enumeration of some of the by-products of steel manufacture in the blast furnace and the steel works.

[1] In the census tabulations blast furnace departments are separately classified and are excluded from the figures shown. Data are confined to steel works and rolling mill products and, although this includes further finished iron and steel products (pipe, wire, tinplate, etc.) when produced in departments of establishments which roll iron and steel, it excludes such operations when carried on independently of a rolling mill even though under the same ownership.

CHART III

DIAGRAM OF STEEL MANUFACTURE



1/ By-product of pickling operations.

SOURCE: The Metallurgy of Iron & Steel" (McGraw-Hill Book Co., Inc.), Bradley Stoughton, 1934, p. 56; slightly revised by U.S. Tariff Commission.

TABLE I.—*Relative Importance of Leading Industries in the United States, 1937*

Industry	Wage Earners		Value of Product		Value Added by Manufacture [1]	
	Average No. for the Year	Rank	Amount (Thousands of Dollars)	Rank	Amount (Thousands of Dollars)	Rank
Steel Works and Rolling Mill Products	479,342	1	$3,330,491	1	$1,496,747	1
Cotton Woven Goods (over 12 inches wide)	336,104	2				
Lumber and Timber Products (not elsewhere classified)	323,928	3				
Motor Vehicle Bodies and Parts	284,814	4	2,080,018	5	804,945	4
Electrical Machinery, Apparatus and Supplies	257,660	5			979,232	3
Motor Vehicles, Not Including Motorcycles			3,096,219	2	701,949	5
Meat Packing, Wholesale			2,787,358	3		
Petroleum Refining			2,546,746	4		
Printing, Publishing, Newspaper and Periodical					1,003,010	2

[1] Calculated by subtracting cost of material, containers, fuel, purchased electric energy, and cost of contract work from value of product.

Source: Census of Manufactures, 1937.

TABLE II.—*Capital Investment* [1] *in the Seven Most Important Manufacturing Industries, 1936*

1. Iron and Steel Industry	$4,153,672,051
2. Petroleum	5,554,722,000
3. Food (manufacturing)	4,535,678,000
4. Chemical and Allied Products	3,424,186,000
5. Textiles	2,903,287,000
6. Motor Vehicles, complete or parts	2,461,969,000
7. Tobacco	897,458,000

[1] Bonded debt plus capital stock plus surplus.

Sources: Figure for Iron and Steel taken from Annual Statistical Report of the Iron and Steel Institute for 1937. Other figures taken from the Bureau of Internal Revenue's report, Statistical Income (Vol. II) for 1936.

TABLE III.—*World Production of Iron Ore, Pig Iron, and Steel*

Producing Country	Percent of World Production		
	1936 Iron Ore	1937 Pig Iron	1937 Crude Steel
United States	28.8	36.7	37.9
Germany	3.8	15.4	14.7
Soviet Union	16.3	14.2	13.1
United Kingdom	7.5	8.4	9.8
France	19.3	7.6	5.9
Belgium-Luxemberg [1]	[2] 2.8	5.9	4.8
Other	21.5	11.8	13.8

[1] Belgium and Luxemberg are considered a unit.
[2] Statistics not available for Belgium 1936.

Source: Compiled from the Annual Statistical Report of the American Iron and Steel Institute.

No list of iron and steel products is adequate to show the variety of products actually manufactured. Pig iron is produced in various grades, and steel ingots to specified chemical composition. But more important, each rolled product is manufactured to detailed specifications of gauge, width, length and finish.

In a previous section it was noted that iron and steel products for some purposes may be classified broadly in five categories: pig-iron, semi-finished steel, tonnage steel, further finished steel, and alloy and tool steel. Generally speaking this classification parallels the base values for these classes of products in Table IV. Two things are notable in this table: (a) the spread in values between the classes themselves ranging from a low of $20.50 per gross ton of basic pig iron to a high

of over $1500 per gross ton for high speed steels; (b) the difference between the high and low values in each class which increases as the more finished stage is approached, although the high price of high speed tool steels is in a large part due to the cost of the various alloying material used. Obviously pig iron is more homogeneous than finished rolled products; further finished products are still further differentiated.

PIG IRON

Although approximately 90% of all pig iron manufactured is produced by integrated firms, most of the pig iron entering the open market is manufactured by nonintegrated merchant furnaces. Production of pig iron in 1937 by grades is shown in Table V together with the proportion of each grade manufactured for sale. Basic and Bessemer and low phosphorus, the grades used in the manufacture of steel, constituted 86% of the total output and 93% of these grades were consumed in the same works, mostly in molten state. Foundry, malleable and forge irons by reason of their low value and large bulk are characteristically distributed from small merchant furnaces in relatively local markets.

SEMIFINISHED STEEL

Carbon steel [2] ingots are sold in the open market only in ngeligible quantities. The production of ingots by type of process together with the proportion of alloy steel in each class is also shown in Table V. Semi-finished steel (blooms, billets, and slabs and sheet bars), although primarily used by the producing company in the manufacture of finished rolled products, is sold to non-integrated companies on long term contracts. In 1937, out of 3,784,978 gross tons produced for sale, 2,164,981 tons were shipped to members of the industry for conversion into further finished products. This figure includes an indeterminate amount of interplant transfers among plants of the same or subsidiary companies.

TABLE IV.—*Range in Base Value of Product*

[Prices September 8, 1938 per gross ton]

	Low		High
Pig Iron			
Basic Pig [1]	$20.50	Low Phosphorus	$25.50
Tonnage Steel			
Rerolled Light Rails [2]	39.00	Black Plate [3]	70.56
Further Finished Products [4]			
Bright Wire [5]	58.24	Extra Special Transformer Sheets [6]	171.36
Finished Alloy Steel			
Open hearth grade alloy bars [7]	62.72	High speed tool stcel [8]	1,500.80

[1] Price at Birdsboro, Pa., quoted per gross ton.
[2] Price F. O. B. milles quoted per gross ton.
[3] Base price at Pittsburgh quoted $3.15 per 100 lbs.
[4] The range on further finished products has been calculated from the following products: Cold rolled sheets, galvanized sheets, electrical sheets, long ternes, tin plate, special coated mfg. ternes, cold rolled strip commodity cold rolled strip, cold rolled spring steel, bright wire, galvanzed wire, spring wire and staples.
[5] Base price at Pittsburgh quoted as $2.60 per 100 lbs.
[6] Electrical sheets f. o. b. Pittsburgh quoted $7.65 per 100 lbs.
[7] Base price at Pittsburgh quoted at $2.80 per 100 lbs.
[8] Price F. O. B. Pittsburgh quoted at $0.67 per lb.
NOTE.—Prices quoted are base prices only. The actual range in price is much wider because of the use, of extras in pricing for such specifications as extra quality, width, close tolerance, chemical requirements etc.

Source: The Iron Age.

[2] Carbon steel is the standard product of the industry and is differentiated from alloy and tool steel by the range of nickel, chromium copper and other alloying elements specified in its chemical composition.

TABLE V.—*Production of Pig Iron and Steel Ingots by Grades and Classes, 1937*

PIG IRON PRODUCTION

Grade	Production in gross tons	Percent of total production	Percent for sale by grade
Total	36,129,596	100.0%	18.0%
Basic	24,780,789	68.5	6.8
Bessemer & low phosphorus	6,316,382	17.5	7.5
Foundry	2,826,238	7.8	86.9
Malleable	2,151,106	5.9	86.3
Forge	22,399	0.1	97.9
All other (incl. direct castings)	69,682	0.2	53.2

STEEL INGOT PRODUCTION

Class	Production in gross tons (including alloy)	Percent of total production	Alloy production in gross tons	Percent alloy by classes
Total	50,318,151	100.0%	2,975,598	5.9%
Open hearth	46,052,980	91.6	2,382,053	5.2
Basic	(45,719,507)	(90.9)	(2,281,365)	(5.0)
Acid	(333,473)	(0.7)	(100,688)	(30.2)
Bessemer	3,499,927	6.8		
Crucible	934	[1]	241	25.8
Electric	814,310	1.6	593,304	72.9

[1] Less than 0.05%.

Source: Annual Statistics Report of the American Iron and Steel Institute.

TONNAGE STEEL

This class of products comprehends carbon steel commodities such as plates, shapes, rails, sheet piling, bars, sheets and strip. Table VI shows the output of the more important hot rolled steel products in 1937 together with the percentage of alloy output. The outstanding feature of the table is the high percentage of light steel products manufactured, especially sheets, strip, black plate (for tinning), and that of merchant bars. These products reflect the importance of the automobile industry and the container industry as consumers in recent years as contrasted with the relative quiescence of demand from the railroads and steel construction. Among the products listed skelp and wire rods occupy a unique position. Because they are the semi-finished stage in the manufacture of pipe and wire respectively, operations which are usually considered within the steel industry, they are sometimes classed as semifinished products. With few exceptions these hot rolled carbon products are produced predominantly in large integrated plants and are sold in large volume to a relatively few important customers. Thus, of 124 companies having capacity to produce these products, 18 integrated companies accounted for 85% of all hot rolled finished products.

FURTHER FINISHED STEEL PRODUCTS

The production of the major categories of further finished iron and steel products in 1937 is shown in Table VII.

This class of products is characterized generally by a large participation of semi- and non-integrated producers, a larger number of sellers, a wider market (especially for wire and wire products, tinplate and pipe), and a much greater participation of jobbers in their distribution. In general, the distribution of steel is direct from producer to user when the unit value of the product is relatively low, when the requirements of the buyer are large or specialized, or when the consuming plant is affiliated with the producer. The middleman is often important when a product is standardized, or when its value is high in proportion to its weight, or when it is used over a wide geographic area in small quantities. Thus tonnage steel distribution except for fill-in business is handled almost entirely by the mill, while the jobber is a much more important factor in the distribution of further finished steel.

TABLE VI.—*Production of Hot Rolled Iron and Steel Products and Production of Alloy Products in Gross Tons, 1937*

Product	Total Hot Rolled Production	Percent Hot Rolled Production by product	Alloy Production	Alloy Production as percent of hot rolled by product
Total Hot Rolled Products	36,766,389	100.0	----------	----------
Plates	3,243,248	8.8	59,486	1.83
Hot Rolled Sheets	7,839,506	21.4	224,695	2.87
Hot Rolled Strip	2,895,561	7.9	72,343	2.49
Hoops, Cotton Ties and Baling Bands	165,447	0.4	----------	----------
Black Plate	2,954,086	8.0	----------	----------
Merchant Bars	5,186,704	14.1	933,743	18.00
Concrete Bars	844,557	2.3	----------	----------
Heavy Shapes	2,546,582	7.0	----------	----------
Light Shapes	730,264	2.0	2,344	0.32
Skelp	2,279,862	6.2	147,533	6.47
Wire Rods	3,009,290	8.2	47,340	1.57
Rails	1,445,739	3.9	757	0.05
Sheet Piling	116,418	0.3	----------	----------
Rolled Billets for Forging	667,342	1.8	133,986	20.08
All Other Hot Rolled	2,841,783	7.7	51,551	1.81

Source: Annual Statistical Report of the American Iron and Steel Institute.

TABLE VII.—*Production of further finished iron and steel products, 1937*

[In gross tons]

Product	Production	Percent
Cold rolled sheets	2,408,066	15.7
Galvanized sheets	1,434,806	9.4
Cold rolled strip	775,160	5.1
Tin and Terne Plate	2,687,128	17.5
Plain Wire	2,327,705	15.2
Other wire and wire products	986,277	6.4
Pipe and tubes (black) [1]	3,823,736	24.9
Other pipe and pipe fittings [2]	889,571	5.8
Total of above items	15,332,449	100.0

[1] Includes butt-weld, lap, electric weld and seamless.
[2] Includes cast iron.

Source: Annual Statistical Report American Iron and Steel Institute.

ALLOY AND TOOL STEEL

Until recent years, special alloy and tool steels were produced on a relatively small scale, largely by semi-integrated companies. The trend, however, has been in the direction of larger scale output (at least of alloy as distinct from tool steel) by integrated producers. High value relative to bulk gives these products a very high degree of mobility while brands and special processes differentiate sources of supply. The ratio of alloy to hot rolled carbon steel production in 1937 is shown in Table VI. Although the ratio is small, the field for alloy products is increasing.

4. Geographical Concentration of Production Facilities

BLAST FURNACES

The location of blast furnaces has been primarily determined by the location of the essential raw materials—iron ore, limestone, and good coking coal.[3] Of the three, limestone is so widely distributed that it is hardly a factor. Generally speaking, iron ore moves to coal even though slightly more ore (1.718 tons) is used than coal (1.272 tons) per ton of pig iron. Determining considerations may be listed briefly.

(i) Ore is more compact and more easily handled than coal.

(ii) The most desirable ore fields are much further removed from consumption areas for iron and steel than good coking-coal fields.

(iii) The freight rate structure is generally more favorable to the movement of ore than to the transportation of coal.

(iv) Coal is relatively more important to iron and steel mills than the ratio of coal to ore consumption in the production of pig iron would indicate because it is a source of power as well as heat throughout the entire production process.

Outstanding exceptions to the generalization that ore moves to coal are found in the Birmingham area, where coking coal and self-fluxing iron ore are contiguous, and in Southeastern Pennsylvania where the Bethlehem works obtains at least part of its ore requirements locally. Map I shows the locations of blast furnaces in the United States with relation to coal and ore deposits. The bulk of the iron ore used by steel producers comes from the Lake Superior fields—Northern Wisconsin, Minnesota and Michigan. In 1937 these three states produced 85.6% of the American output. Minnesota alone accounted for 67.2%. Alabama was the third most important source of domestic ore (8.7%) followed by Pennsylvania (including New York) with 3.6% of total output. Substantial quantities of ore are imported, primarily from Chile. In 1937, out of 2,443,000 tons imported, 58.9% came from Chile. Most of this ore entered this country through Sparrows Point, Md., which port accounted for 80.3% of total ore imports. Blast furnaces located at Sparrows Point and in Eastern Penn. are probably supplied primarily from foreign sources. (See Table VIII following.)

Table VIII.—*Production of iron ore by States, 1937*

[Gross tons]

[Compiled by the Bureau of Mines, Department of Interior]

Minnesota	48, 416, 985	67. 2%
Michigan	12, 085, 048	16. 8
Alabama	6, 307, 581	8. 7
Pennsylvania	2, 625, 044	3. 6
Wisconsin	1, 155, 602	1. 6
New Jersey	520, 133	. 7
New York	(1)	
Other States	983, 155	1. 4
Total	72, 093, 548	100. 0%

[1] Included in Pennsylvania.

Source: Annual Statistical Report of the American Iron & Steel Institute.

[3] Total amount of materials used per ton of pig iron produced is remarkably stable from year to year Excluding charcoal, which is of minor importance and is reported in bushels rather than tons (i. e., charcoal pig iron is usually less than 1% of the total output), an average of 3.161 long tons of materials were consumed per long ton of pig iron produced in 1937. This was the high for the period, the low being 3.092 tons in 1933.

Of the average of 3.161 tons of materials used in 1937, 1.897 tons were ore, scrap and cinder, 0.361 tons were limestone (flux) and 0.903 tons were coke. Since coke is bulky relative to its weight and value as well as friable, transportation is both costly and deleterious. Except for bee-hive coke, therefore, which has become relatively unimportant (e. g., in the 7 years ending 1938, by-product coke varied from 94% to over 97% of total coke production while in 1935 bee-hive coke accounted for less than 3% of the steel industry's consumption of bituminous coal), it is the assembly of coal rather than coke which is characteristic in the steel industry. Using the ratio of coal to coke as shown in Diagram I for 1937, the yield of coke is about 71%. This means that 0.903 tons of coke are equivalent roughly to 1.272 tons of coal and the total materials used in that year are increased from 3.161 to 3.530 tons per ton of pig.

We may say roughly then that 3½ tons of raw materials must be assembled for every ton of pig iron produced. This figure understates the importance of the assembly of raw materials per ton of steel manufactured because of losses through oxidization and waste in the steel furnace. Although some of this waste is recovered in the form of mill cinder, scale, etc., and returned to the furnace, the net loss approximates 10%.

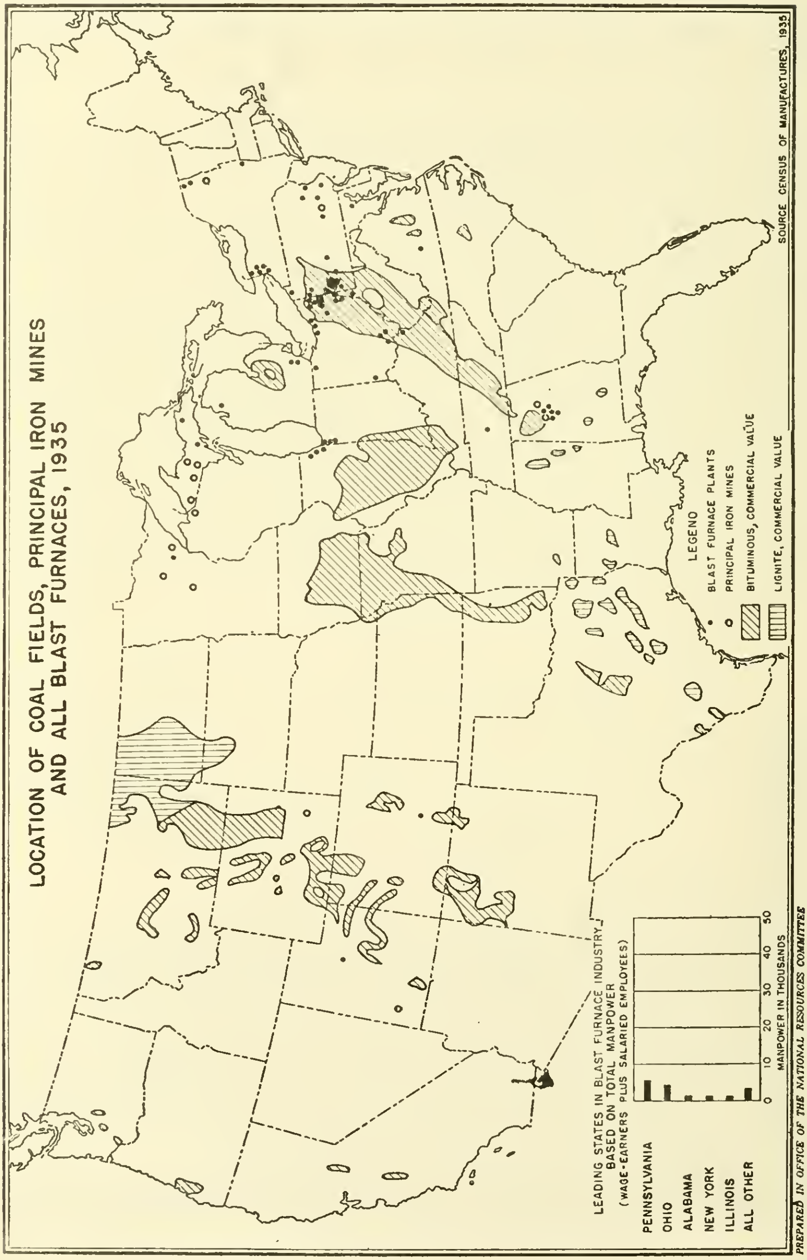

LOCATION OF COAL FIELDS, PRINCIPAL IRON MINES
AND ALL BLAST FURNACES, 1935
LEGEND
BLAST FURNACE PLANTS
PRINCIPAL IRON MINES
BITUMINOUS, COMMERCIAL VALUE
LIGNITE, COMMERCIAL VALUE
LEADING STATES IN BLAST FURNACE INDUSTRY
BASED ON TOTAL MANPOWER
(WAGE-EARNERS PLUS SALARIED EMPLOYEES)
PENNSYLVANIA
OHIO
ALABAMA
NEW YORK
ILLINOIS
ALL OTHER
0 10 20 30 40 50
MANPOWER IN THOUSANDS
SOURCE CENSUS OF MANUFACTURES, 1935
PREPARED IN OFFICE OF THE NATIONAL RESOURCES COMMITTEE

TABLE IX.—*Production of coal by States, 1937*

States	Thousands of net tons	Percent	States	Thousands of net tons	Percent
All	493, 370	100. 0	North Dakota	2, 105	0. 4
Alabama	12, 400	2. 5	Ohio	24, 500	5. 0
Arkansas	3, 200	0. 7	Oklahoma	(2)	(2)
Colorado	7, 153	1. 5	Pa. Bituminous	110, 160	22. 3
Illinois	51, 240	10. 4	Pa. Anthracite	50, 915	10. 3
Indiana	17, 270	3. 5	Tennessee	5, 292	1. 1
Iowa	3, 690	0. 8	Texas	879	0. 2
Kansas	7, 044	1. 4	Utah	3, 750	0. 8
Kentucky	47, 053	9. 5	Virginia	18, 558	2. 7
Maryland	1, 570	0. 3	Washington	2, 010	0. 4
Michigan	561	0. 1	West Virginia	118, 050	23. 9
Missouri	(1)	(1)	Wyoming	5, 930	1. 2
Montana	3, 075	0. 6	Other States, Alaska	170	(3)
New Mexico	1, 795	0. 4			

1 Included with Kansas.
2 Included with Arkansas.
3 Less than 0.05%.

Source: Annual Statistical Report of the American Iron and Steel Institute, 1937.

The high concentration of blast furnaces in the western Pennsylvania and eastern Ohio region with minor concentrations around the lower tip of Lake Michigan and around Birmingham is well illustrated in Map I. Actual production figures by states in 1937 give a very rough indication of this concentration. (See table below.)

TABLE X.—*Production of pig iron by States*

[Gross tons]

Pennsylvania	11, 371, 238	31. 5
Ohio	7, 903, 944	22. 0
Indiana, Mich	4, 722, 316	13. 1
Alabama	2, 580, 674	7. 1
Md., Va., W. Va., Ky., Tenn	2, 531, 457	7. 0
Illinois	3, 426, 116	9. 5
Mass., New York	2, 843, 286	7. 9
Minn., Iowa, Col., Utah	750, 565	2. 1
Total	36, 129, 596	100. 0—

Source: Annual Statistical Report of the American Iron and Steel Institute.

STEEL WORKS

Most of the pig iron produced is used in the manufacture of steel. For example, in 1937, 31 million out of a total of 36 million tons of 86% of all pig iron produced was of basic and Bessemer grade, the types used for steel production. Foundry, malleable and forge grades are generally produced for sale primarily by small merchant furnaces. Thus in 1937, whereas only 6.8% and 7.5% of basic and Bessemer pig iron respectively were produced for sale, 86.9% of foundry, 86.3% of malleable and 97.9% of forge pig iron were produced for this purpose. Although 82% of all pig iron was produced for makers use, of the total output of pig iron of steel making grade 93% was produced for the makers' own use.

Economies in the conservation of heat indicate the desirability of using iron for steel making purposes in the molten state. Thus, of the total output of pig iron and ferro-alloys, the Census of Manufactures reports that 72% was used in the molten state in 1933 and 1935 and 71% in 1937. If pig iron for sale and ferro-alloys be subtracted from 1937 output, this would indicate that about 88% of all pig iron produced for makers use in 1937 was used in the molten state.

Economies of heat conservation and the use of by-product blast furnace gas together with the relatively high cost of transporting pig iron compared to its value have resulted in a concentration of steel works in the vicinity of blast furnaces even if not under the same ownership. Of 52 companies having capacity for the production of pig iron in 1938, 18 integrated companies owned 89% of the total while the remainder was divided among 34 non-integrated merchant producers. These same integrated companies accounted for 90% of all capacity

for ingots and steel for castings, 76 semi-integrated companies dividing the remainder among them.

Table XI below shows the distribution of production of ingots and steel for castings among the most important states. It will be noted that Pennsylvania and Ohio produced almost 53% of total output in 1937; Indiana and Illinois almost 21%. The distribution of output is roughly comparable to that of pig iron.

The geographical dispersion of steel works, however, is considerably greater than that of blast furnaces (especially blast furnaces for steel-making iron) as is indicated generally in Map I, p. 10400. The availability of steel scrap makes location nearer the consuming market economically practicable and desirable. Steel works along the West Coast and in the vicinity of St. Louis are prominent examples. Some furnaces may be operated almost exclusively on scrap. The importance of this material is indicated by the fact that the average charge of open-hearth furnaces producing 91.5% of all steel made in the United States in 1937 was approximately 54% scrap and 46% pig iron. A declining ratio of pig iron output to steel ingot production over a long period of years is evidence of the growing importance of scrap.

TABLE XI.—*Production of ingots and steel for castings by States, 1937*

[Gross tons]

Mass., R. I., Conn.	276, 021	0. 5
New York, New Jersey	2, 865, 883	5. 7
Pennsylvania	15, 615, 164	30. 9
Delaware, Md., D. C., Va.	2, 324, 586	4. 6
West Virginia, Kentucky	2, 138, 677	4. 2
Georgia, Ala., Texas	1, 903, 257	3. 8
Ohio	11, 074, 914	22. 0
Indiana	6, 141, 480	12. 1
Illinois	4, 429, 676	8. 8
Michigan, Minn., Mo.	2, 457, 337	4. 9
Oklahoma, Colo., Wash.	741, 991	1. 5
California	599, 715	1. 2
Total	50, 568, 701	100. 0%

Source: Annual Statistical Report of the American Iron and Steel Institute.

ROLLING MILLS

As steel approaches its rolled form equipment becomes more specialized. Almost completely undifferentiated in the blast furnace stage, many rolled products require distinctive rolling equipment. On the other hand the operating characteristics of blast furnaces and steel furnaces especially (and to some extent of rolling mills as well) require production approximating rated capacity during the period the furnace or mill is in use. Flexibility is attained by varying the number of units in use or the time during which they are used rather than the rate of use. To provide effective use of undifferentiated furnace capacity, therefore, in the face of shifts in demand for finished rolled products for which more specialized rolling equipment is necessary, a multiplication of rolling mill facilities may be required to balance installed iron-making and steel-making capacity. Economies in transportation and handling costs of scrap produced as well as those associated with common power facilities, the use of by-product gas and tar, and heat conservation may dictate a location of such rolling mills contiguous to or in the vicinity of furnaces. Since roughly only 70% of the weight of the ingot on the average is finally produced in the form of hot rolled steel products, the first item mentioned may be substantial. Out of a total of 28,515,000 gross tons of scrap consumed in 1937 by the steel industry, 57.5% was produced in the companies' own works. These considerations weigh the more when the market for the rolled product is dispersed.

INTEGRATION

In the production of rolled products, there is both a wider geographic dispersion of mills and a greater number of producers. This increase in the number of companies producing total finished hot rolled products as contrasted with steel ingots and pig iron is shown in Table XII and on Chart IV. It is characteristic that the integrated companies produce a wide variety of products while the degree of specialization increases for semi-integrated and even more for non-integrated companies. Many of the latter manufacture only a single product.

CHART IV

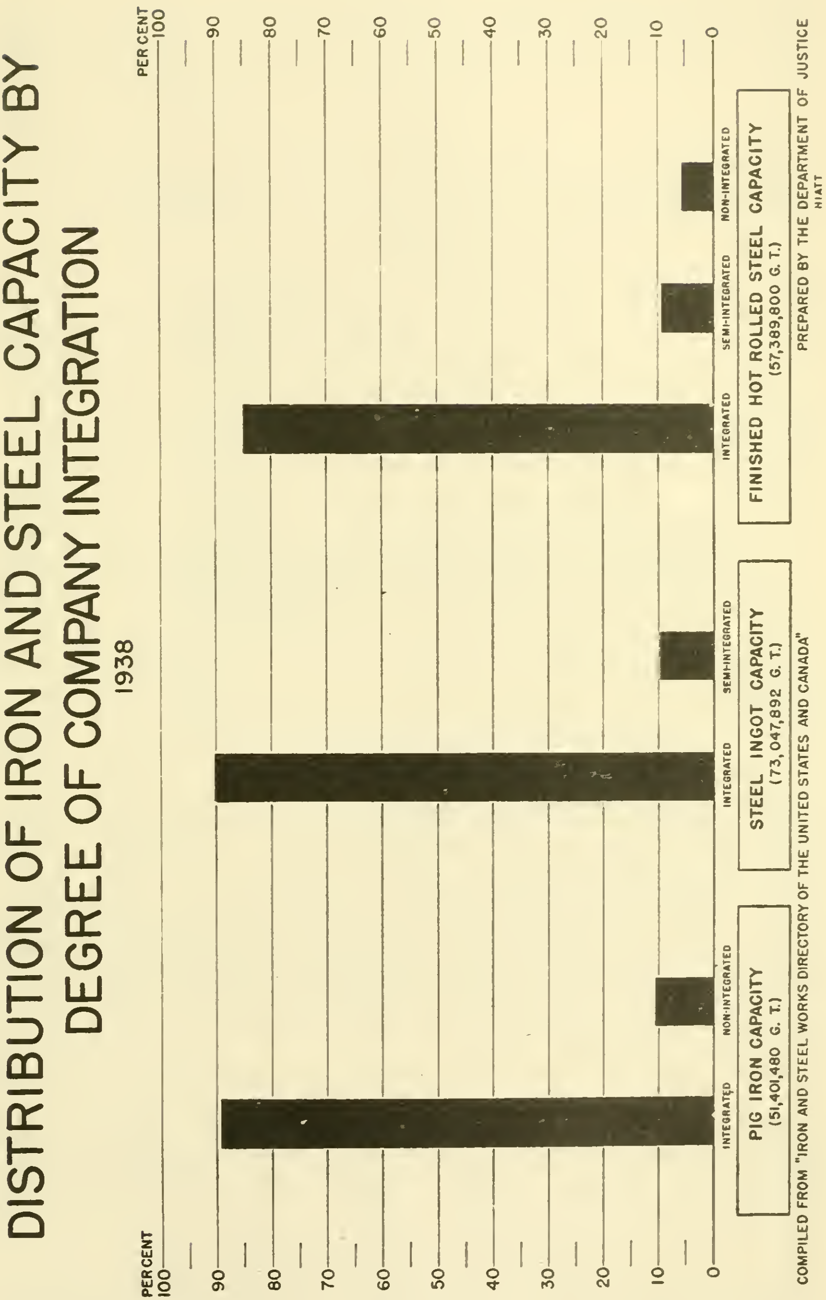

DISTRIBUTION OF IRON AND STEEL CAPACITY BY DEGREE OF COMPANY INTEGRATION
1938
PERCENT
100
90
80
70
60
50
40
30
20
10
0
INTEGRATED
NON-INTEGRATED
PIG IRON CAPACITY
(51,401,480 G. T.)
INTEGRATED
SEMI-INTEGRATED
STEEL INGOT CAPACITY
(73,047,892 G. T.)
INTEGRATED
SEMI-INTEGRATED
NON-INTEGRATED
FINISHED HOT ROLLED STEEL CAPACITY
(57,389,800 G. T.)
COMPILED FROM "IRON AND STEEL WORKS DIRECTORY OF THE UNITED STATES AND CANADA"
PREPARED BY THE DEPARTMENT OF JUSTICE
HIATT

TABLE XII.—*Capacity in the United States, by degree of company integration, 1938*

PIG IRON

	Annual Capacity in gross tons	Per Cent	No. of Companies
Total	51,401,480	100	52
Integrated	45,953,380	89	18
Non-integrated	5,448,100	11	34

INGOTS AND STEEL FOR CASTINGS

	Annual Capacity in gross tons	Per Cent	No. of Companies
Total	73,047,892	100	74
Integrated	65,951,300	90	18
Semi-integrated	7,096,592	10	56

TOTAL FINISHED HOT ROLLED PRODUCTS

	Annual Capacity in gross tons	Per Cent	No. of Companies
Total	57,818,900	100	124
Integrated	49,025,900	85	18
Semi-integrated	5,508,250	9	49
Non-integrated	3,284,750	6	57

Source: Compiled from the Iron and Steel Works Directory of the United States and Canada—1938

Because of the characteristics of production and the market, the importance of such semi- and non-integrated companies varies widely among products. Although production data on this basis are not available, the relative importance of each class of companies for each of a selected group of products in terms of relative capacity installed in 1938 is indicated in Table XIII. In the case of hot rolled products, integrated producers are generally more important sources for heavy steel products than for light while semi-integrated and non-integrated companies are more important producers of flat-rolled steel products, especially of light steel such as strip and black plate for tinning. More marked is the relative importance of this latter group of companies in the manufacture of further finished steels, especially cold-rolled strip in which they accounted for almost two-thirds of the total capacity.

GEOGRAPHICAL CONCENTRATION OF PRODUCTION WITH RELATION TO CONSUMPTION

Data are not available to demonstrate adequately the relation between geographical concentration of production and of consumption. The problem is one which requires analysis by products. This analysis has been undertaken by the Department of Justice in the present investigation and the results will be made available at a later date.

CONSUMPTION BY INDUSTRY AND AREA

The distribution of finished steel amoug major consuming industries in 1937, as estimated by the Iron Age, is shown in Chart V. The automotive industry together with railroads, containers and the building industry, in the order named, accounted for approximately 47% of finished steel sold in that year. Although the relative order of their importance has altered, these four industries have constituted the four most important outlets for steel in each of the last six years (1932–38, excluding 1933 for which data are not available). The automobile

industry was first in every year (varying from 15.5% to 24.8%) but railroads were third in three years and fourth in two while the building industry occupied second rank in every year except 1937. Containers were fourth in three years and third in three others. Combined, these four industries accounted for from 46.2% of total estimated consumption in 1938 to 56.5% in 1932.

CHART V

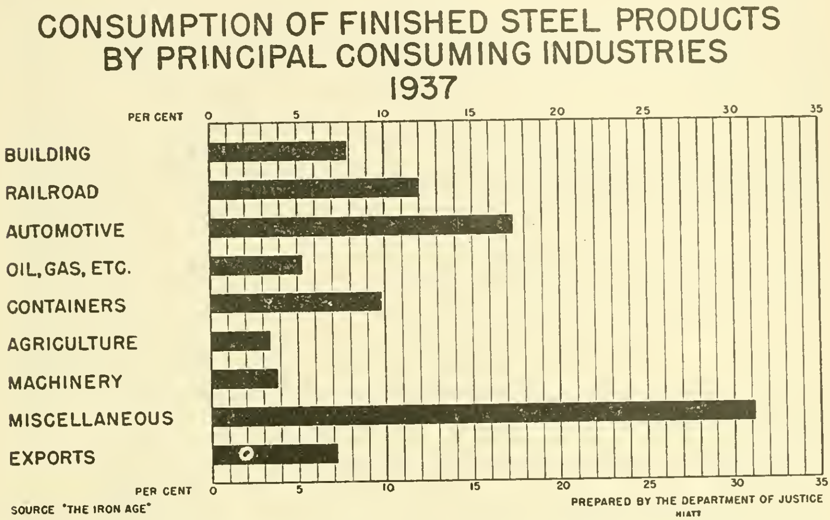


TABLE XIII.—*Capacity for Selected Produced by Degree of Company Integration*

[Gross Tons; 000 omitted]

Product	Industry Capacity	Industry Percentage	Integrated Mills		Semi-Integrated Mills		Non-Integrated Mills	
			Tons	Percent of Total	Tons	Percent of Total	Tons	Percent of Total
Rolled Billets for Forging	1,107	100	836	75.5	262	23.7	9	0.8
Shapes, Heavy Structural	3,667	100	3,517	95.9	150	04.1	------	--------
Plates	5,505	100	4,454	80.9	1,028	18.7	23	0.4
H. R. Sheets	10,954	100	9,366	85.5	1,090	10.0	498	04.5
H. R. Strip	4,286	100	2,979	69.5	660	15.4	647	15.1
Heavy Rails	2,650	100	2,650	100.0	------	--------	------	--------
Wire Rods	2,358	100	3,435	78.8	804	18.4	119	02.8
Black Plate for Tinning	2,135	100	1,706	79.9	96	04.5	333	15.6
Merchant Bars	9,173	100	8,146	88.8	589	06.4	438	04.8
FURTHER FINISHED STEEL								
C. R. Sheets	5,143	100	4,594	89.3	244	04.8	305	05.9
C. R. Strip	1,437	100	491	34.2	236	16.4	710	49.4
Plain Wire	4,495	100	3,291	73.2	803	17.9	401	08.9
Tin and Terne Plate	3,651	100	3,078	84.3	115	03.1	458	12.6
Pipe and Tubes [1]	7,288	100	5,359	73.5	281	03.9	1,648	22.6
Wire Products	3,674	100	2,778	75.6	727	19.8	169	04.6

[1] Includes Butt-Weld, Lapweld, Electricweld and Seamless.

Source: Compiled from the Iron and Steel Works Directory of the United States and Canada, 1938.

It is apparent that, with the exception of the automotive industry, steel requirements of these industries would be widely dispersed geographically. Readily available data for consumption of domestic finished steel by major States are shown in Table XIV. Over 60% of finished steel was distributed in eight contiguous states—New York, New Jersey, Pennsylvania, Ohio, Indiana, Illinois, Michigan and Wisconsin—in 1935. The Pacific area accounted for only 5%, while roughly one-third of the total consumption was distributed to the 37 remaining states in six other geographic areas. Among the states, Michigan—the home of the automobile industry—was by far the largest buyer, accounting for 21% of total consumption. Ohio and Pennsylvania which in 1937 produced 53.5% of total pig iron and 52.9% of ingots and steel for castings accounted for only 15% of total consumption. Indiana and Illinois, which in the same year produced 20.9% of the steel, consumed only 10% of it. Although production and consumption here compared are for different years, the percentage of output by states has been fairly stable over the period. Fairly heavy concentration of consumption for all finished steel products in the industrial states of the Middle Atlantic and the East North Central areas, however, is consistent with a very wide dispersion for particular products, especially further finished steel, such as tinplate and pipe. Space and readily available data will not permit statistical presentation.

TABLE XIV.—*Consumption by Principal States of Domestic Finished Steel, 1935*

Principal Consuming States	Consumption in gross tons	Percent of Consumption by States
Middle Atlantic Area	4,120,000	20
New York	2,472,000	12
New Jersey	412,000	2
Pennsylvania	1,236,000	6
East North Central Area	8,652,000	42
Ohio	1,854,000	9
Indiana	412,000	2
Illinois	1,648,000	8
Michigan	4,326,000	21
Wisconsin	412,000	2
Pacific Area: Washington, Oregon, California	1,030,000	5
All Other States	6,798,000	33

Source: Derived from U. S. Tariff Commission Report No. 128, p. 375.

CONCENTRATION OF CAPACITY BY MAJOR PRODUCING REGIONS

Since state boundaries fail to coincide with industrial regions and there is an absence of available production data by such regions, the actual degree of concentration in the iron and steel industry may be approximated from capacity data. Using capacity by mills in 1938 as reported in the Iron and Steel Directory, Table XV has been prepared to show the relative capacity for the production of pig iron, steel ingots, finished hot rolled, and further finished steel products in the three most important producing regions—Pittsburgh, Chicago and Birmingham. Each region was defined as an area within a 100 mile air line radius of the city named. For some purposes this radius is too large but nevertheless these figures are of interest.

TABLE XV.—*Concentration of capacity in major producing areas,*[1] *1938*

Producing Area	Pig Iron and Ferro Alloys		Steel Ingots & Castings		Finished Hot Rolled Steel Products [2]		Further Finished Steel Products [3]	
	Capacity in gross tons	Percent of total	Capacity in gross tons	Percent of total	Capacity in gross tons	Percent of total	Capacity in gross tons	Percent of total
Total U. S. Capacity	51, 401, 480	100	73, 047, 892	100	54, 927, 800	100	26, 726, 923	100
Pittsburgh	21, 356, 800	41. 5	30, 282, 010	41. 5	[4] 22, 970, 800	41. 8	12, 774, 898	47. 8
Chicago	10, 635, 800	20. 7	13, 828, 000	18. 9	9, 434, 500	17. 2	3, 668, 230	13. 7
Birmingham	3, 200, 850	6. 2	2, 329, 000	3. 2	1, 840, 000	3. 3	878, 200	3. 3
Total of above [5]	35, 193, 450	68. 5	46, 439, 010	63. 6	34, 245, 300	62. 3	17, 291, 328	(64..7)

[1] Producing area comprises territory within 100 mi. air line of points listed.
[2] Includes the following products only:
Heavy shapes, plates, sheet piling, heavy rails, rolled blooms and billets for forging, new billet steel reinforcing bars, rerolled steel reinforcing bars, hot rolled bars other than concrete reinforcing, splice bars and tie plates, blanks and pierced billets for seamless tubes, skelp, hot rolled sheets, hot rolled strip, hoop, cotton ties and baling bands, hot rolled black plate, wire rods, strip for cold reduced black plate and tin plate.
[3] Includes the following products only:
Cold finished bars, seamless tubes, butt-weld steel pipe, lap weld steel pipe, electric weld steel pipe, cold rolled sheets, galvanized sheets, cold rolled strip, tin and terne plate, plain wire, wire nails and staples.
[4] For some products the Carnegie-Illinois Steel Corp. report in the Directory did not show separately capacity located at each plant by product. Therefore, in arriving at area capacities in which plants were not reported separately estimates had to be made of actual plant capacity for particular products. In this connection the following estimates were required.

Bars other than concrete reinforcing: Pencoyd, Pa., estimated capacity	39,000 G. T.
Heavy Structural Shapes: Pencoyd, Pa., estimated capacity	70,000 G. T.
Skelp: Youngstown and McDonald, Ohio plants, estimated capacity	265,000 G. T.

Source: Compiled from Iron and Steel Works Directory of the United States and Canada.

Pittsburgh, of course, is by far the most important region, accounting for around 41% of iron, steel ingots and hot rolled steel, and almost half of the further finished steel. The degree of concentration in each region tends to decline as one passes from pig iron to steel ingots and approaches the more finished form of the steel product. Over two-thirds of all pig iron capacity is located in these three areas; over 63% of ingot capacity and over 62% of finished hot rolled capacity are also there. According to the sample of further finished products employed, 65% of further finished capacity was so concentrated. A comparison of these data with the sketchy consumption figures shown in Table XIV will give a rough idea of the relative concentration of the industry.

5. SIZE OF COMPANY

According to the Iron and Steel Works Directory of the American Iron & Steel Institute, there were 124 companies in 1938 which had capacity for the production of finished hot rolled products. Including 34 non-integrated (non-integrated with respect to steel making capacity only) manufacturers of pig iron and ferro-alloys, this makes a total of 158 companies. With operating subsidiaries included, the figure is raised to 164 operating companies. This number is substantially less than the total number of companies in the industry since it does not include companies with further finishing capacity only and companies wihch have no rolling capacity but engage exclusively in the manufacture of products like wire and pipe. Although the total number of companies varies considerably from product to product, an outstanding characteristic of this industry is the concentration of capacity in the hands of a few sellers. Two indications of relative size may be noted.

In Table XVI the total invested capital of each of the first ten companies in the industry is contrasted with that reported for the industry as a whole in 1937. These ten largest companies accounted for 88% of the entire investment of more than four and one quarter billion dollars. The assets of United States Steel Corporation alone were 40% of the total, well over 2½ times the figure for its nearest rival, Bethlehem Steel Corporation, which in turn was practically twice as large as its nearest competitor, Republic Steel Corporation. 55% of the total industry investment is accounted for by two corporations, over two-thirds by four. Even the second largest company in the industry had an investment substantially larger than the aggregate of all companies other than the first nine.

TABLE XVI.—*Invested Capital of the Ten Largest Companies,*[1] *1937*

Company	Invested Capital in Millions of Dollars	Percent
Total Invested Capital for the Industry [2]	4, 281. 26	100%
1. United States Steel Corporation	1, 717. 92	40%
2. Bethlehem Steel Corporation	656. 68	15%
3. Republic Steel Corporation	329. 50	8%
4. Jones & Laughlin Steel Corporation	198. 61	5%
5. Youngstown Sheet and Tube Company	199. 34	5%
6. National Steel Corporation	179. 69	4%
7. Inland Steel Company	143. 36	3%
8. American Rolling Mills Company	132. 62	3%
9. Wheeling Steel Corporation	110. 37	3%
10. Crucible Steel Company of America	103. 59	2%
Totals for the Ten Companies	3. 771. 68	88%
All Others	509. 58	12%

[1] Average of total invested capital at the beginning and at the end of the year for each individual company listed as reported by Poors for 1937.
[2] Total invested capital as reported by the Annual Statistical report of the American Iron and Steel Institute for 1937.

Sources: Poors Annual; Statistical Report of American Iron and Steel Institute.

A second measure of relative size is employed in Table XVII; the percentage of the total U. S. capacity in 1938 of pig iron, steel ingots, total hot rolled products and certain selected hot rolled and further finished products of each of the ten largest companies in each classification respectively. In the construction of this table, proportionate capacities for companies which were not among the leading ten for any given product are not recorded. It will be observed that the ten largest companies measured by investment are likewise the ten largest in total finished hot rolled capacity, with the exception of the Crucible Steel Company of America. This company is primarily a manufacturer of high-speed and tool steels, alloys and stainless steels, and has relatively little capacity in ordinary hot-rolled products. It will be observed, further, that National Steel Corporation with a considerably smaller total investment than Jones & Laughlin Steel Corporation, has much larger finishing capacity than the latter although smaller pig iron and ingot capacity. Similarly, Youngstown Sheet & Tube Company, with a much greater investment than Inland Steel Company, has approximately the same hot rolled finishing capacity but a much larger pig iron and ingot capacity.

It will be noted that there is a wide disparity in the relative importance of particular companies for particular products.

Even the giant United States Steel Corporation, although first in all the products shown except cold rolled sheets, in which it is third to National Steel Corporation, is practically matched by other much smaller companies in particular products. In general, its dominance is more pronounced in hot-rolled products, especially the heavier hot-rolled products, than in further finished products Exceptions are wire and hot reduced tin and terne plate. In cold rolled sheets, strip and tin and terne plate, its lead is small or non-existent. Finally, to list the ten largest producers in some products, it is necessary to include some semi- and non-integrated producers.

TABLE XVII.—*Concentration of capacity of pig iron, ingots and selected steel products among the ten largest producers, 1938*

[Capacity in Thousands of Gross Tons]

Company	Pig Iron and Ferro-Alloys	Steel Ingots and Steel For Castings	Total Finished Hot Rolled Products	Hot Rolled Black Sheets	Bars Other Than Concrete Reinforcing	Plates	Wire Rods	Hot Rolled Strip	Heavy Shapes	Heavy Rails	Cold Rolled Sheets	Plain Wire	Cold Reduced Tin and Terne Plate	Hot Reduced Tin and Terne Plate	Cold Rolled Strip
Total U. S. Capacity	51,401.5	73,047.9	57,389.8	10,952.7	9,174.4	5,504.8	4,358.5	4,286.3	3,667.4	2,650.0	5,142.9	4,494.9	1,828.0	1,822.6	1,437.3
	Percent 100	*Percent* 100	*Percent* 100	*Percent* 100	*Percent* 100	*Percent* 100	*Percent* 100	*Percent* 100	*Percent* 100	*Percent* 100	*Percent* 100	*Percent* 100	*Percent* 100	*Percent* 100	*Percent* 100
U. S. Steel Corporation	39.9	35.3	31.3	14.8	29.1	35.5	37.2	24.2	52.9	57.7	10.7	35.5	25.0	41.6	10.1
Bethlehem Steel Company	12.8	13.7	12.8	10.2	13.7	13.8	9.9	(1)	29.0	21.5	7.0	5.8	15.3	9.1	
Republic Steel Corporation	7.4	8.9	8.8	13.7	19.5	2.4	5.5	10.1			7.6	6.5	7.3	4.5	4.9
National Steel Corporation	4.1	4.7	5.8	7.8	5.5	10.9		13.8	3.1		14.5		20.2	5.4	7.9
Jones & Laughlin Steel Co.	6.2	5.0	5.0		5.2	5.1	6.7		1.6		4.3	4.4	5.9	6.6	
Youngstown Sheet & Tube Co.	5.5	4.3	3.7	6.8	2.0	2.8			0.8		10.5		2.6	4.0	
Inland Steel Co.	2.6	3.8	3.7	3.7	2.6	4.5		3.5	4.6	9.4	8.0		6.6		
American Rolling Mill Co.	1.3	3.6	3.5	12.7					3.0		12.0				
Wheeling Steel Corporation	2.0	2.4	2.7	6.1			3.3				10.3	3.3	13.5		
Ford Motor Company		1.3	1.3	3.2	1.9						2.3				
Otis Steel Company				2.7		2.2		4.7							4.5
Pittsburgh Steel Co.*							6.7					7.8			
Sharon Steel Corporation								7.6							
Colorado Fuel & Iron Corp.									0.5	11.3					
Continental Can Co.**													1.3	12.5	
Sub total 5 most Important	71.8	67.6	63.7	59.2	73.0	[2] 73.2	66.0	[3] 65.7	[4] 93.7		58.0	[5] 61.0	81.3	[6] 79.7	[7] 43.0
Sub total 10 " "	[8] 84.2	83.0	78.6	81.7	[9] 84.7	[10] 89.2	[11] 84.4	[12] 85.8	[13] 100.0		87.2	[14] 78.1	[15] 100.0	[16] 98.0	[17] 66.2

[1] Included with Hot Rolled Sheets for this company.

[2] Also includes Lukens Steel Co. (7.9%) (semi-integrated).

[3] Also includes Acme Steel Company (10.0%) (non-integrated).

[4] Also includes Phoenix Iron Co. (4.1%) (semi-integrated).

[5] Also includes Northwestern Steel & Wire Co. (5.4%) (semi-integrated).

[6] Also includes McKeesport Tin Plate Corp. (9.9%) (non-integrated).

[7] Also includes Acme Steel Co. (9.5%) (non-integrated), Detroit Steel Co. (9.3%) (non-integrated) and Allegheny Ludlum Steel Co. (6.2%) (semi-integrated).

[8] Also includes Interlake Iron Corp. (2.0%) (non-integrated).

[9] Also includes Crucible Steel Co. of America (4.0%), and Timken Roller Bearing Co. (1.2%) (semi-integrated).

[10] Also includes Lukens Steel Co. (7.9%) and Worth Steel Co. (4.1%) (both semi-integrated).

[11] Also includes Keystone Steel & Wire (4.6%) (semi-integrated), Northwestern Steel & Wire (4.1%) (semi-integrated), Continental Steel Corporation (3.4%) (semi-integrated), and J. A. Roebblings' Sons (3.0%) (semi-integrated).

[12] Also includes Acme Steel Company (10.0%) (non-integrated), Allegheny Ludlum Steel Corp. (6.3%) (semi-integrated), Superior Steel Corp. (2.8%) (non-integrated), and The Stanley Works (2.8%) (semi-integrated).

[13] Also includes Phoenix Iron Co. (4.1%) (semi-integrated) and International Harvester Co. (0.4%).

[14] Also includes Northwestern Steel & Wire Co. (5.4%) (semi-integrated) and Continental Steel Corp. (3.3%) (semi-integrated), Wickwire-Spencer Steel Company (3.2%) (integrated), and Keystone Steel and Wire Co. (2.9%) (semi-integrated).

[15] Also includes Granite City Steel Company (2.3%) (semi-integrated).

[16] Also includes McKeesport Tin Plate Corp. (9.9%) (non-integrated) and Follansbee Bros. Company (2.9%) (non-integrated) and Washington Tin Plate Company (1.5%) (non-integrated).

[17] Also includes Acme Steel Co. (9.5%) (non-integrated), Detroit Steel Co. (9.3%) (non-integrated) and Allegheny Ludlum Steel Co. (6.2%) (semi-integrated), and Cold Metal Process Co. (4.2%) (non-integrated) and The Stanley Works (4.4%) (semi-integrated).

NOTE.—Among companies listed those marked * are semi-integrated; those marked ** are non-integrated; all others are integrated companies.

Source: Compiled from the Iron and Steel Works Directory of the U. S. and Canada.

Ten companies or less accounted for the entire capacity in the United States in three of the products listed, heavy shapes, heavy rails, and cold reduced tin and terne plate. In some other products, not listed, the concentration is even greater. For example, only three companies produce sheet piling. Although the concentration of capacity for particular products varied from 66.2% to 100% for the ten largest companies, it is noteworthy that with the exception of cold-rolled strip, the range is not much wider if only the first five companies be aggregated (i. e., 58% to 100%). Since this table includes all of the most important rolled and further finished steel products (measured in tonnage produced) with the exception of black plate for tinning, and pipe and tubes, it may be considered typical of the concentration of capacity in the industry and of the leading position of one or a few sellers. Strictly, of course, these data understate the importance of size, since size is a relative term and must be measured with respect to the market for the product in question.

Perspective may be restored by one striking comparison. The manufacturing capacity of United States Steel Corporation alone is approximately that of all German producers combined. It is almost twice that of the entire British steel industry and more than twice that of all French mills combined.

COST STRUCTURE OF THE INDUSTRY

Data are not available which permit anything like an adequate picture of the cost structure in the iron and steel industry. Nevertheless, it is important to bear in mind the bulk of overhead costs in the production of steel. Although we have seen that the iron and steel industry occupied no better than third place in total capital investment, it will be observed in Table XVIII that it has the slowest capital turnover (i. e., the ratio of capital investment to estimated values of sales) of the leading manufacturing industries. Thus steel capital investment was equalled by gross income at the rate of once every 1.6 years in 1936 as compared with 1.4 years in the petroleum industry and about every five months in food manufacturing. As shown in the same table, the average capital turnover in the steel industry from 1909 through 1938 was 2.1 years, ranging from 1.3 years in 1918 to 5.5 years in 1932. In other words, at its worst the ratio of investment to gross income in steel approximates that in the public utilities, the traditional examples of heavy capital use.

TABLE XVIII.—*Capital turnover in the steel industry* [1] *and in six other leading manufacturing industries* [2] *in 1936*

Year	Industry	Stock, Bonded Debt and Surplus (000 Omitted)	Estimated Value of Sales (000 Omitted)	Rate
				Years
1909–1938 Average	Iron and Steel	4, 453, 248	2, 120, 095	2. 1
1918	Iron and Steel	4, 887, 112	3, 811, 431	1. 3
1932	Iron and Steel	4, 962, 261	895, 781	5. 5
1936	Iron and Steel	4, 125, 554	2, 572, 933	1. 6
	Petroleum	5, 554, 722	4, 044, 089	1. 4
	Food (Manufacturing)	4, 535, 678	9, 945, 168	0. 4
	Chem. & Allied Products	3, 424, 186	3, 614, 106	0. 9
	Textiles	2, 903, 287	4, 290, 749	0. 7
	Motor Vehicles	2, 461, 969	4, 640, 931	0. 5
	Tobacco	897, 458	1, 188, 954	0. 7

[1] Source: American Iron and Steel Institute.
[2] Bureau of Internal Revenue Report, Statistics of Income (Vol. II) for 1936.

Much capital investment is tied up in ore and coal reserves by integrated companies, one of the reasons for the disproportionate investment of these companies as contrasted with semi- and nonintegrated firms. But the major cause is undoubtedly discovered in the enormous cost and capacity of efficient units of capital equipment required in the large-scale manufacture of iron and steel products. Thus, the cost of a modern blast furnace approximates five million dollars, open hearth furnaces may require an investment of upwards of six hundred thousand dollars, while a continuous strip or sheet mill will aggregate upwards of ten million dollars to almost double that sum. In part because of reduced operating cost for output equivalent to their normal capacity and in part because of the

quality of the product which was required by the automobile industry, the outstanding change in iron and steel equipment during the last decade has been the installation of continuous mills for finished hot rolled products. The record of such installations to January 1938 is shown in Table XIX. The large annual capacity and the great width of most of the latter mills is especially notable. To continuous hot mills in recent years have been added continuous cold reduction mills, especially for strip and black plate.

Overhead costs in the steel industry, then, may be considered in two categories. First, there are the usual financial overheads which are associated with the total investment of the entire corporation. Second, and perhaps more significant, are the technical overheads associated with the operation of individual furnaces or mills. Since the production process is continuous and the size of individual units is very large, a considerable amount of overhead is invested in the process once it is started and interruptions to that process become excessively costly. The exorbitant cost of roll change, for example, on a continuous mill, may render it profitable to serve a relatively wide and variable distribution area, even at increased freight absorption, if by so doing it is possible to accumulate a more economical tonnage of a given specification.

These considerations weigh larger with the integrated than with the nonintegrated producers, not merely because of the larger investment of the former but also because the size of the latter's units of equipment is a mere fraction of that of the integrated firm. The average nonintegrated firm must put up with a hand rolling mill or some other compromise with the continuous unit. Its costs, therefore, are more flexible although they are likely to be larger at any rate of operations favorable to the continuous unit. The dominating influence of the rate of operations on net profits in the industry even in the absence of price change is too obvious to be stressed. It is evidence of the weight of overhead costs.

TABLE XIX.—*Continuous Sheet and Wide Strip Mills Installed or Under Construction in the United States With Approximate Capacities, January 1938*

Name of Company and Location of Mill	Year Started	Size, In.	Annual Capacity Gross Tons
American Rolling Mill Co., Ashland, Ky	1926	58	432,000
American Rolling Mill Co., Butler Pa	1926	48	315,000
Republic Steel Corp., Warren, Ohio	1927	36	302,000
Weirton Steel Co., Weirton, W. Va	1927	54	420,000
Carnegie-Illinois Steel Corp., Gary, Ind	1928	42	400,000
American Rolling Mill Co., Middletown, Ohio	1929	80	372,000
Wheeling Steel Corp., Steubenville, Ohio	1929	60	540,000
Carnegie-Illinois Steel Corp.,[1] South Chicago, Ill	1931	96	720,000
Great Lakes Steel Corp., Ecorse, Mich	1930	38	400,000
Otis Steel Co., Cleveland	1932	72	375,000
Inland Steel Co., Indiana Harbor, Ind	1932	79	600,000
Allegheny Steel Co., Brackenridge, Pa	1932	38	275,000
Youngstown Sheet & Tube Co.,[1] Indiana Harbor, Ind	1934	72	214,000
Youngstown Sheet & Tube Co., Campbell, Ohio	1935	79	600,000
Carnegie-Illinois Steel Co., Gary, Ind	1935	38	270,000
Ford Motor Co., Detroit	1935	56	500,000
Carnegie-Illinois Steel Corp., MacDonald, Ohio	1935	43	300,000
Bethlehem Steel Co., Lackawanna, N. Y	1936	79	600,000
Carnegie-Illinois Steel Corp., Gary, Ind	1936	80	720,000
Great Lakes Steel Corp., Ecorse, Mich	1936	96	720,000
Granite City Steel Co., Granite City, Ill	1936	90	375,000
Carnegie-Illinois Steel Corp.,[1] Homestead, Pa	1936	100	729,000
Jones & Laughlin Steel Corp., Pittsburgh	1936	96	720,000
Bethlehem Steel Corp., Sparrows Point, Md	1937	56	600,000
Tennessee Coal, Iron & Railroad Co., Birmingham	1937	48	300,000
Republic Steel Corp., Cleveland	1937	98	720,000
Carnegie-Illinois Steel Corp., Pittsburgh, Irvin Wks	1937	80	600,000
			13,119,000

[1] These mills are continuous and semi-continuous plate mills, but are capable of rolling heavier gage sheets.

Source: The Iron Age, January 6, 1938, p. 388.

6. Pricing of Iron and Steel

The Basing Point System of Pricing.—Characteristically, iron and steel products today are priced on a multiple basing-point system.[4] It is beyond the scope of this pamphlet to explain the origin, describe the development, analyze the effects

[4] There are exceptions, the most important being rails and other steel products sold to railroads for their own use. These are priced f. o. b. the mill or the nearest freight station on the line of the purchaser. For some products in some areas, arbitrary delivered prices are established. Detroit is an outstanding example.

of or state the problems associated with the basing-point method of pricing. As a method, it is not unique to the steel industry. Suffice it here to describe succinctly its operation and the recent changes which have been made in it.

Essentially a basing-point system of pricing is a simplified method of quoting a delivered price at any potential destination. That is, the destination price is the aggregate of the basing-point price and the freight from basing-point irrespective of source of supply. So long as the same basing-point, the same basing-point price, and the same freight rates from basing point to destination are employed, ignoring "extras" [5] and terms of sale, the price at any given destination will be identical irrespective of the location of the mill or the actual transportation cost. If, then, there are a limited number of basing points for any given product, known prices at those points, and a book of freight rates from such points to various destinations available, the computation of the deliered price at any given point is within the powers of any office boy. Whether such a simplification of pricing procedure, together with the publication by a central body of a freight-rate book for the use of the industry significantly affects "competition" is not a matter to be considered in this descriptive statement.

From the point of view of the ease in price quoting and from that of the effects of the system, the number of basing points is extremely important. For example, if a mill is not located at a basing point, it is apparent that the freight from basing point to customer location (the amount of the addition to base price which determines the delivered price) will generally differ from the freight from mill to customer location (the actual freight which is either prepaid or allowed to the customer). Therefore, the net receipts at the mill (the "mill-net") will vary on each sale in accordance with the location of the destination relative to that of the mill and the basing point. These nets will be at a maximum for destinations in the immediate vicinity of the mill and freight-wise away from both the mill and the basing point (with qualifications for cheap alternative methods of transport and the vagaries of the freight-rate structure). As the number of basing points increases, however, especially when identical prices are quoted at all bases, the area within which maximum mill-nets are enjoyed is reduced. On the other hand, that within which there is a reduction in the mill-net, by reason of an excess of actual freight charges from mill to destination over the freight from the governing base,[6] is increased.

Number of Basing Points.—The trend in the industry has been toward an increase in the number of basing points. This may be attributed to the growth of new centers of production, to the bargaining power of important consumers and consuming industries, or to pressure of opinion emanating from the decision of the Federal Trade Commission in 1924 condemning the old "Pittsburgh Plus"—single basing-point-system. In view of the multiplicity of products in the industry and the fact that a given basing point may be a base for only one product (and even for only one grade of a product) while another is a base for twenty or thirty, there is little significance in the total number of basing points at any given time. In other words, one is concerned in the steel industry not with one basing-point system but with a series of systems, the adequacy and the significance of any one of which must be analyzed with relation to the characteristics of production and of the market for that product. For example, it would be fallacious to judge the adequacy of the number of basing points for pig iron without first distinguishing between capacity for sale (primarily the merchant furnace) and capacity for maker's own use; and clearly, this problem has little to do with the effect of basing points for steel pipe.

Until June 1938 the basing-point system in the steel industry retained substantially all the characteristics with which it had emerged from the period under the Code. A few changes had been made—the most important being the recognition of Granite City, Illinois as a base for hot and cold rolled sheets, black plate and tin plate when the Granite City Steel Company initiated quotations for such products based on this point during the second quarter of 1937. But the arbitrary differentials, applicable to areas such as Detroit for certain products, were retained along with the traditional scheme of price differentials over Pittsburgh at other basing points. On June 24, 1938, following exceptional weakness in the prices of many steel products, the United States Steel Corporation initiated a fundamental

[5] The "extras" comprise additions to or subtractions from the base price for specification (gauge, width, length, chemical composition, etc.) or quantities other than those for which the base price is quoted. Schedules are issued by the steel companies from time to time. Although the published extras tend to be uniform for all companies, they are a fertile source of price concessions.

[6] The "governing base" is that from which the aggregate of base price plus freight to destination is lowest.

change by announcing not only a substantial price reduction at Pittsburgh, but also identical prices at Chicago and Birmingham. In the price confusion which followed this elimination of the customary inter-basing point price differentials, many companies began the quotation of base prices, especially for flat-rolled products like sheet, strip and plates, at their own mills. The net result was a substantial increase in the number of basing points and of base prices which are identical with those quoted at Pittsburgh.

The net change since the Code period in the number of basing points for the more important commodities is shown in Table XX. With the changes as indicated in the *Iron Age*, existing basing points as listed by an important steel company are also compared. Discrepancies between the *Iron Age* and the steel company report, while it may reflect no more than partial coverage by one or the other source, suggests that what is and what is not a basing point is largely a matter of managerial sales policy. While the number of basing points, where changed at all, has usually been increased, this is not always the case. In the case of plain wire, for example, there has been from time to time a substantial reduction in the number of bases.

Since new basing points were established at the same time that price differentials were abandoned in June 1938, the amount of the price reductions for the third quarter of that year differed substantially in various sections of the country. This resulted from the pre-existing differentials in the case of old basing points, the location of the newly established bases relative to pre-existing basing points for particular products and the amount of the differential over Pittsburgh prices actually retained. This change in price relationships is indicated in Table XXI for an extended list of products. In general, the net reduction of price was lowest at Pittsburgh although it was equalled at those basing points which retained the pre-existing relation with Pittsburgh. Exceptions to this generalization were found in plates, sheet piling and soft steel bars; in these instances a smaller net change occurred at Pacific Coast Ports, thereby augmenting the traditional differential over Pittsburgh. In those products for which they were basing points, differentials were retained at Pacific Ports, Gulf Ports, Granite City, Worcester, and Duluth. In addition, Chicago continued a differential on cold rolled strip. Differentials were unaffected for basic pig iron, the price reduction being equal at all bases.

TABLE XX.—*Number of Basing Points for Selected Steel Products, 1935 and 1939*

Product	May 1939: No. of basing points listed by "Iron Age"	May 1939: No. of basing points listed by a major steel producer	During N. R. A., No. of basing points
Sheet and tin-plate bars	7	7	7
Plates	10	10	7
Heavy structural shapes	7	7	7
Hot rolled sheets	10	10	4
Hot rolled strip	[1] 6	7	3
Cold rolled sheets	8	8	4
Cold rolled strip	5	5	3
Wire rods	[2] 6	9	9
Plain wire	[3] 4	7	14
Tin-plate	[1] 3	4	3
Tin mill black plate	4	4	3
Merchant bars	8	[5] 8	8
Skelp	[6] 5	6	6
Pipe-std., line, and oil country	3	3	3
Pig iron	[7] 18	21	21

[1] Pacific Ports not included in "Iron Age."
[2] Duluth, Galveston and Youngstown not included in "Iron Age."
[3] Duluth, Pacific Ports and Worcester not included in "Iron Age."
[4] Includes 6 separate Gulf Ports. Four bases (Anderson, Ind., Mobile, Ala., Lake Charles, La., and Corpus Christi, Texas) are for merchant wire only.
[5] Listed by this company as bars and small shapes.
[6] Buffalo not included in "Iron Age."
[7] Hamilton, O., Jackson, O., and Sharpsville, Pa., not included in "Iron Age."

NOTE.—Chicago and Gary, though sometimes listed separately are here counted as 1 basing point. Gulf and Pacific Ports are counted as 1 basing point each except for plain wire during N. R. A. (See note 4 above.)

TABLE XXI.—*Base Prices of Selected Steel Products*

[Dollars per 100 lbs.]

Item	Price May, 1938	Price July, 1938	Differ- ence	Diff. as a Percent of May price
Plates:				
Pittsburgh	2.25	2.10	.15	−6.66%
Chicago	2.30	2.10	.20	−8.70
Gary	2.30	2.10	.20	−8.70
Birmingham	2.40	2.10	.30	−12.50
Sparrows Point	2.35	2.10	.25	−10.64
Coatesville	2.35	2.10	.25	−10.64
Youngstown	[1] 2.3725	2.10	.2725	−11.49
Cleveland	[1] 2.45	2.10	.35	−14.29
Claymont	[1] 2.50	2.10	.40	−16.00
Gulf ports	2.65	2.45	.20	−7.54
Pacific ports	2.80	2.70	.10	−3.57
Hot Rolled Sheets:				
Pittsburgh	2.40	2.15	.25	−10.42
Gary	2.50	2.15	.35	−14.00
Birmingham	2.55	2.15	.40	−15.69
Pacific ports	2.95	2.75	.20	−6.78
Buffalo	[1] 2.66	2.15	.51	−19.17
Sparrows Point	[1] 2.70	2.15	.55	−20.37
Cleveland	[1] 2.60	2.15	.45	−17.31
Youngstown	[1] 2.5225	2.15	.3725	−14.77
Middletown	[1] 2.68	2.15	.53	−19.78
Granite City	2.60	2.25	.35	−13.46
Cold Rolled Sheets, 20 ga.:				
Pittsburgh	3.45	3.20	.25	−7.25
Chicago-Gary	3.55	3.20	.35	−9.86
Birmingham	3.60	3.20	.40	−11.11
Buffalo	[1] 3.71	3.20	.51	−13.75
Youngstown	[1] 3.5725	3.20	.3725	−10.43
Cleveland	[1] 3.65	3.20	.45	−12.33
Middletown	[1] 3.73	3.20	.53	−14.21
Granite City	3.65	3.30	.35	−9.59
Pacific ports	4.00	3.80	.20	−5.00
Galvanized Sheets:				
Pittsburgh	3.80	3.50	.30	−7.89
Chicago-Gary	3.90	3.50	.40	−10.26
Sparrows Point	[1] 4.10	3.50	.60	−14.63
Buffalo	[1] 4.06	3.50	.56	−13.79
Middletown	[1] 4.08	3.50	.58	−14.22
Youngstown	3.9225	3.50	.4225	−10.77
Birmingham	3.95	3.50	.45	−11.39
Granite City	4.00	3.60	.40	−10.00
Pacific ports	4.40	4.10	.30	−6.82
Sheet Piling:				
Pittsburgh	2.60	2.40	.20	−7.69
Chicago	2.70	2.40	.30	−11.11
Buffalo	2.70	2.40	.30	−11.11
Gulf ports	3.05	2.85	.20	−6.56
Pacific ports	3.05	2.90	.15	−4.92
Hot Rolled Strip:				
Pittsburgh	2.40	2.15	.25	−10.42
Chicago	2.50	2.15	.35	−14.00
Cleveland	[1] 2.60	2.15	.45	−17.31
Middletown	[1] 2.68	2.15	.53	−19.78
Youngstown	[1] 2.5225	2.15	.3725	−14.77
Birmingham	2.55	2.15	.40	−15.69
Granite City	2.60	2.25	.35	−13.46
Cold Rolled Strip:				
Pittsburgh	3.20	2.95	.25	−7.81
Youngstown	[1] 3.3225	2.95	.3725	−11.21
Cleveland	3.20	2.95	.25	−7.81
Worcester	3.40	3.15	.25	−7.35
Chicago	3.49	3.05	.44	−12.61
Special Coated Mfg. Terne:				
Pittsburgh	4.65	4.65	.00	.00
Gary	4.75	4.65	.10	−2.064
Granite City	4.85	4.85	.00	0.0
Wire Rods:				
Pittsburgh	2.10	1.92	.18	−8.57
Chicago	2.14	1.92	.22	−10.28
Youngstown	2.14	1.92	.22	−10.28
Cleveland	2.10	1.92	.18	−8.57
Birmingham	2.23	1.92	.31	−13.90
Worcester	2.19	2.01	.18	−8.22
San Francisco	2.50	2.32	.18	−7.20
Anderson	2.14	[1] 2.14	.00	.00

[1] Calculated delivered price.

TABLE XXI.—*Base Prices of Selected Steel Products*—Continued

[Dollars per 100 lbs.]

Item	Price May, 1938	Price July, 1938	Difference	Diff. as a Percent of May price
Billets, Blooms & Slabs:				
Pittsburgh	1.65	1.52	.13	−7.88%
Chicago-Gary	1.65	1.52	.13	−7.88
Cleveland	1.65	1.52	.13	−7.88
Youngstown	1.65	1.52	.13	−7.88
Buffalo	1.65	1.52	.13	−7.88
Birmingham	1.65	1.52	.13	−7.88
Sparrows Point	1.95	1.52	.43	−22.05
Skelp:				
Pittsburgh	2.10	1.90	.20	−9.52
Chicago	2.10	1.90	.20	−9.52
Youngstown	2.10	1.90	.20	−9.52
Buffalo	2.10	1.90	.20	−9.52
Coatesville	2.10	1.90	.20	−9.52
Sparrows Point	2.10	1.90	.20	−9.52
Soft Steel Bars:				
Pittsburgh	2.45	2.25	.20	−8.16
Chicago-Gary	2.50	2.25	.25	−10.00
Youngstown	2.50	2.25	.25	−10.00
Cleveland	2.50	2.25	.25	−10.00
Duluth	2.60	2.35	.25	−9.62
Buffalo	2.55	2.25	.30	−11.76
Birmingham	2.60	2.25	.35	−13.46
Gulf ports	2.85	2.60	.25	−8.77
Pacific ports	3.00	2.85	.15	−5.00
Sheet Bars:				
Pittsburgh	1.65	1.52	.13	−7.88
Chicago	1.65	1.52	.13	−7.88
Cleveland	1.65	1.52	.13	−7.88
Youngstown	1.65	1.52	.13	−7.88
Buffalo	1.65	1.52	.13	−7.88
Canton	1.65	1.52	.13	−7.88
Sparrows Point	1.65	1.52	.13	−7.88
Rail Steel Re-enforcing Bars:				
Pittsburgh	2.30	1.90	.40	−17.39
Chicago-Gary	2.35	1.90	.45	−19.15
Buffalo	2.35	1.90	.45	−19.15
Sparrows Point	[1] 2.60	1.90	.70	−26.92
Cleveland	2.35	1.90	.45	−19.15
Youngstown	2.35	1.90	.45	−19.15
Birmingham	2.35	1.90	.45	−19.15
Gulf ports	2.70	2.25	.45	−16.67
Pacific ports	2.80	2.35	.45	−16.07
Billet Steel Reinforcing Bars:				
Pittsburgh	2.45	2.05	.40	−16.33
Chicago-Gary	2.50	2.05	.45	−18.00
Birmingham	2.50	2.05	.45	−18.00
Buffalo	2.50	2.05	.45	−18.00
Youngstown	2.50	2.05	.45	−18.00
Cleveland	2.50	2.05	.45	−18.00
Sparrows Point	[1] 2.75	2.05	.70	−25.45
Gulf ports	2.85	2.40	.45	−15.79
Pacific ports	2.95	2.50	.45	−15.25
Structural Shapes:				
Pittsburgh	2.25	2.10	.15	−6.66
Chicago	2.30	2.10	.20	−8.69
Buffalo	2.35	2.10	.25	−10.64
Bethlehem	2.35	2.10	.25	−10.64
Birmingham	2.40	2.10	.30	−12.5
Gulf ports	2.65	2.45	.20	−7.55
Pacific ports	2.80	2.70	.10	−3.57
Bright Wire to Mfg. Trade:				
Pittsburgh	2.90	2.60	.30	−10.34
Chicago	2.95	2.60	.35	−11.86
Cleveland	2.90	2.60	.30	−10.34
Birmingham	3.05	2.60	.45	−14.75
Mobile	[1] 3.36	2.80	.56	−16.67
New Orleans	[1] 3.42	2.85	.57	−16.67
Lake Charles	[1 2] 3.50	2.90	.60	−17.14
Barbed Wire, Galvanized to Trade:				
Pittsburgh	3.40	3.20	.20	−5.88
Chicago	3.45	3.20	.25	−7.23
Cleveland	3.40	3.20	.20	−5.88
Birmingham	3.55	3.20	.35	−9.86
Mobile	3.70	3.40	.30	−8.11
New Orleans	3.70	3.45	.25	−6.76
Lake Charles	3.70	3.50	.20	−5.41

[1] Calculated delivered Price.
[2] Rail-Water via Pittsburgh.

TABLE XXI.—*Base Prices of Selected Steel Products*—Continued

[Dollars per 100 lbs.]

Item	Price May, 1938	Price July, 1938	Differenc	Diff. as a Percent of May price
Galvanized Fence Wire to Trade:				
Pittsburgh	3.55	3.35	.20	−5.63%
Chicago	3.60	3.35	.25	−6.94
Cleveland	3.55	3.35	.20	−5.63
Birmingham	3.70	3.35	.35	−9.46
Mobile	[1] 4.01	3.60	.41	−10.22
New Orleans	[1] 4.07	3.65	.42	−10.32
Lake Charles	[1,2] 4.15	3.70	.45	−10.84
Standard Wire Nails to Trade:				
Pittsburgh	2.75	2.45	.30	−10.91
Chicago	2.80	2.45	.35	−12.5
Cleveland	2.75	2.45	.30	−10.91
Birmingham	2.90	2.45	.45	−15.52
Mobile	3.05	2.65	.40	−13.11
New Orleans	3.05	2.70	.35	−11.48
Lake Charles	3.05	2.75	.30	−9.84
Galvanized Wire to Mfg. Trade:				
Pittsburgh	2.95	3.15	.20	6.77
Chicago	3.00	3.15	.15	5.00
Cleveland	2.95	3.15	.20	6.78
Birmingham	3.10	3.15	.05	1.61
Mobile	[1] 3.41	3.35	−.06	−1.76
New Orleans	[1] 3.47	3.40	−.07	−2.02
Lake Charles	[1,2] 3.55	3.45	−.10	−2.82
Single Loop Bale Ties:				
Pittsburgh	.63	.56	.07	−11.11
Chicago	.68	.56	.12	−17.65
Cleveland	.63	.56	.07	−11.11
Birmingham	.78	.56	.22	−28.21
Mobile	[1] .87	.76	.11	−12.64
New Orleans	[1] .93	.81	.12	−12.90
Lake Charles	[1,2] 1.16	.86	.30	−25.86
Basic Pig Iron:				
Bethlehem	1.049	0.915	.13	−12.39
Birdsboro	1.049	0.915	.13	−12.39
Swedeland	1.049	0.915	.13	−12.39
Steelton	1.049	0.915	.13	−12.39
Sparrows Point	1.049	0.915	.13	−12.39
Everett	1.127	0.949	.18	−15.97
Buffalo	1.027	0.848	.18	−17.53
Neville Island	1.049	0.871	.18	−17.16
Erie	1.049	0.871	.18	−17.16
Toledo	1.049	0.871	.18	−17.16
Chicago	1.049	0.871	.18	−17.16
Youngstown	1.049	0.871	.18	−17.16
Birmingham	0.848	0.670	.18	−21.22

[1] Calculated delivered price.
[2] Rail-Water via Pittsburh.

Source: The Iron Age.

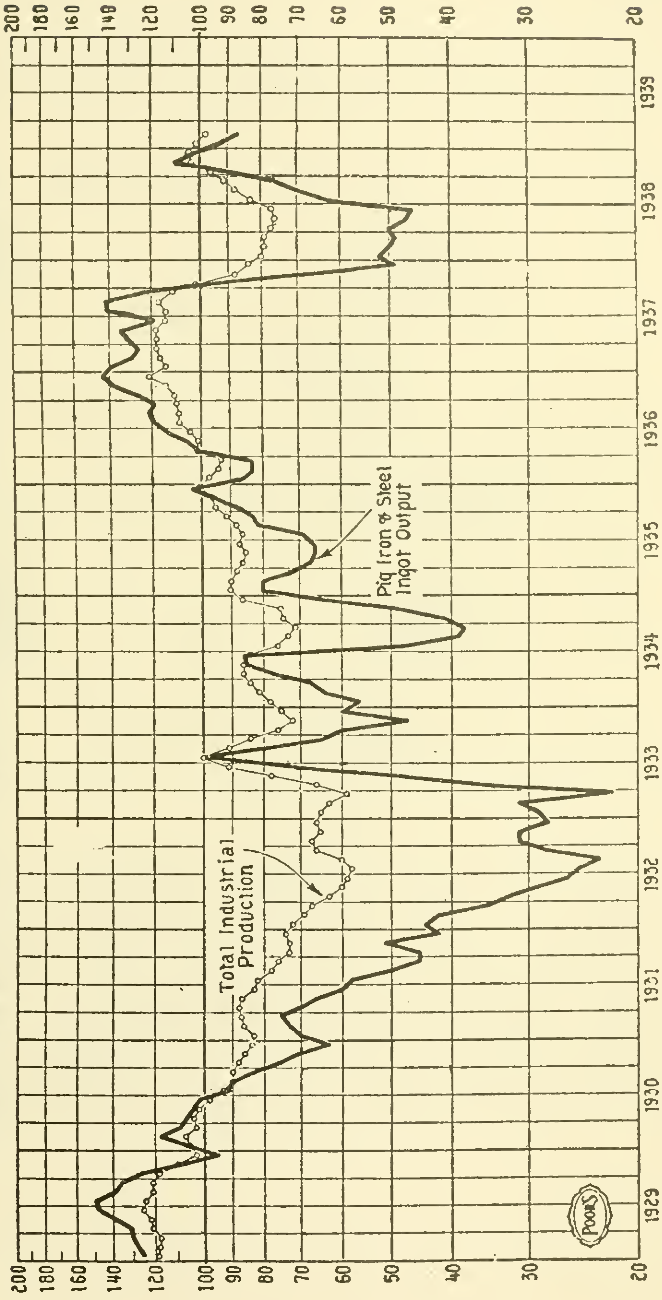
Although the basic method of pricing remained unchanged after June 1938, it is apparent that the relative mill-net prices received by steel companies as well as the relative competitive position of consuming industries was profoundly altered. An examination of these effects is beyond the scope of this pamphlet.

7. Performance Record

That the productive activity of the steel industry is subject to considerably larger cyclical fluctuation than is business as a whole is demonstrated by Chart VI. The fact that much of the iron and steel produced finds its way into the heavy capital goods industries accentuates this tendency. During periods of depression when little new capital is invested there is small demand for the heavy tonnage steels. On the other hand, some few steel products, such as tin plate, which are used in consumption goods industries of a more stable nature are not affected as severely. The rate of utilization of steel-making capacity since 1929, shown in the table below, indicates this wide variation.

Chart VI —STEEL ACTIVITY COMPARED WITH GENERAL BUSINESS ACTIVITY

(Federal Reserve Board Indexes—1923-1925 ave.=100—adjusted for seasonal)



Along with the wide fluctuations in production it is not surprising to find large variations in the number of workers employed. The latter, however, are not as great as the former. This is to be expected. Continuous rolling mills and other automatic rolling equipment now indispensable to the large producer of steel require little additional labor to operate at increasing rates of production. The older type of hand-operated machinery, involving a much smaller investment, on the other hand, makes necessary a considerably more flexible labor supply. The average number of employees in blast furnaces, steel works and rolling mills in the United States for the last ten years, as reported by the Bureau of Labor Statistics, is shown below:

TABLE XXII.—*Steel Ingot Production as a Percent of Capacity, 1929–1938*

Year	Steel Ingot Production as a Percent of Capacity	Year	Steel Ingot Production as a Percent of Capacity
	Percent		*Percent*
1929	88.5	1934	37.4
1930	62.5	1935	48.7
1931	37.6	1936	68.4
1932	19.5	1937	72.5
1933	33.1	1938	39.6

Source: Statistical Report of the American Iron and Steel Institute.

TABLE XXIII.—*Average Number of Employees in Blast Furnaces, Steel Works and Rolling Mills, 1928–1938*

Year	Average Number of employees (Average Mid-Month Count)	Year	Average Number of employees (Average Mid-Month Count)
1929	419,360	1934	350,114
1930	367,098	1935	374,125
1931	278,079	1936	428,481
1932	234,899	1937	487,714
1933	288,510	1938	356,311

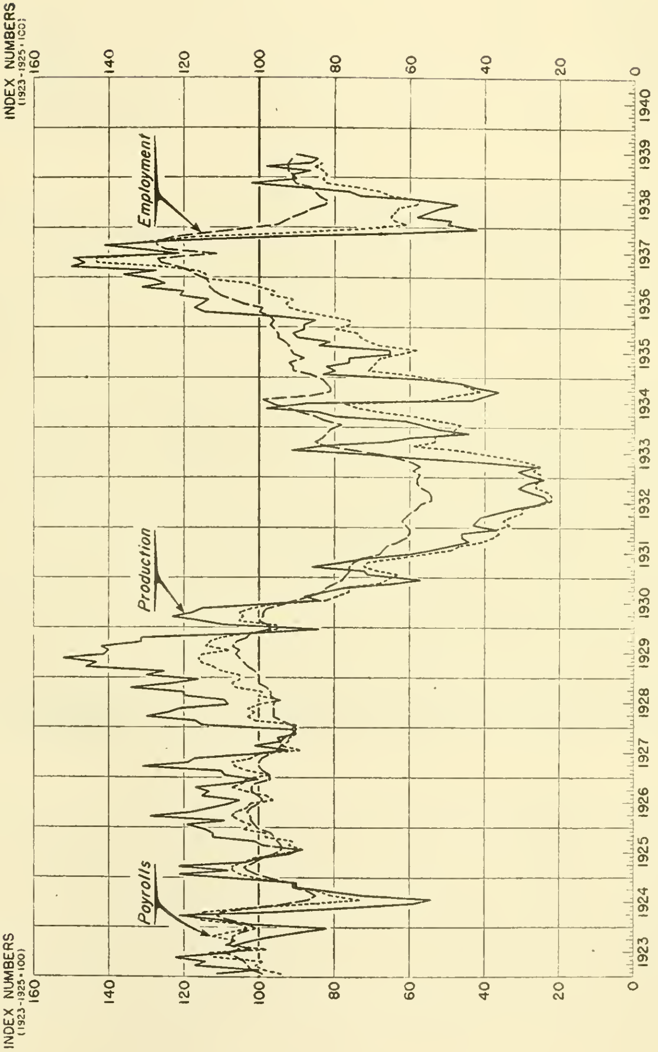
Source: Bureau of Labor Statistics.

Chart VII shows the indexes of production, employment and payroll by months from January, 1923 to date. It will be noted that the production and payroll indexes correspond somewhat more closely than do those of production and employment. The low point of ingot production for the period was in July 1932 when the 1923–25 index reached 23. In March of 1937 this production index stood at 151. The employment index using the same base was 54 at its lowest in July 1932 and reached the highest point thereafter in May of 1937 at 127. Whereas the number of persons employed fluctuates over a smaller range than changes in production, employees' earnings correspond much more closely in magnitude of fluctuation. When business conditions are depressed money wage reduction may be accompanied by shortened hours and staggered work schedules. Average weekly earnings, average hours worked per week and average hourly earnings are shown below by years from 1932 to date in blast furnaces, steel works and rolling mills.

CHART VII

EMPLOYMENT AND PAYROLLS IN BLAST FURNACES, STEEL WORKS AND ROLLING MILLS, AND PRODUCTION OF STEEL INGOTS

UNITED STATES



SOURCE: BUREAU OF LABOR STATISTICS

TABLE XXIV.—*Average weekly earnings, average hours worked per week, and average hourly earnings in blast furnaces, steel works, and rolling mills, 1932–1938*

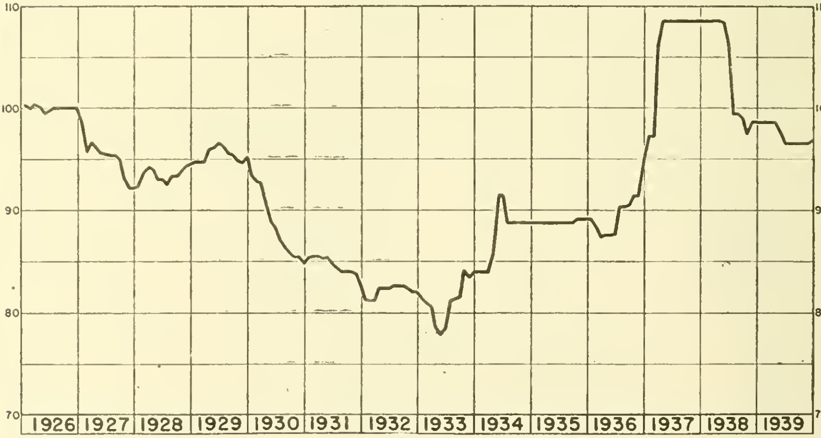
Year	Average Weekly Earnings	Average hours worked per week	Average hourly earnings
1932	13.91	26.1	52.7
1933	17.27	32.5	53.1
1934	19.25	30.5	63.2
1935	23.12	34.9	66.4
1936	27.37	40.9	67.1
1937	31.46	38.7	81.8
1938	23.78	28.7	83.5

Source: U. S. Bureau of Labor Statistics.

CHART VIII

FINISHED STEEL COMPOSITE PRICE INDEX

BY MONTHS, 1926-1939 INCLUSIVE



SOURCE "THE IRON AGE"

PREPARED BY THE DEPARTMENT OF JUSTICE
HIATT

PRICES

In contrast to production, employment and payrolls, the prices of steel products are relatively rigid. They exhibit only small declines in periods of depression. The composite price index of finished steel products (1926=100) shown in Chart VIII indicates that the level of prices was only some 15% lower in 1932 than it was in 1929. In the table below yearly average wholesale price indexes of "all commodities," "semi-finished manufactured articles," and "finished products" as classified by the Bureau of Labor Statistics are compared with the "finished steel composite" as defined by the Iron Age.[7] Unlike the other indexes, the steel composite is an unweighted average of published prices at Pittsburgh. It is therefore less satisfactory as an indication of actual price changes. Changes in the relative importance of the constituent items are not reflected in the index; actual price concessions from nominal base prices are not revealed; and fundamental changes in the cost of steel such as the elimination of inter-basing point price differentials and the increase in the number of basing points in the summer of 1938 are not shown.

[7] Of the items in the "finished steel composite," bars, plates, black sheets, and hot rolled strip are classified by the Bureau of Labor Statistics as "semi-finished manufactured articles" because, although they are a finished product of steel rolling mills, they are further fabricated by other industries. Shapes, plain wire, black plate, and open hearth rails, being used in that state, are classified as "finished" by the Bureau of Labor Statistics.

TABLE XXV.—*Yearly average price indices*

Price Index 1926=100	All Commodities [1]	Semi-Finished Mfg. Articles [1]	Finished Products [1]	Finished Steel Composite [2]
1926	100.0	100.0	100.0	100.0
1929	95.3	93.9	94.5	95.4
1932	64.8	59.3	70.3	82.1
1933	65.9	65.4	70.5	81.2
1936	80.8	75.9	82.0	89.7
1937	86.3	85.3	87.2	106.4
1938	78.6	75.4	82.2	103.4

[1] Source: Bureau of Labor Statistics.
[2] Source: Compiled from "Iron Age."

EARNINGS [8]

An industry such as the steel industry, with huge sums invested in capital equipment, must depend upon mass output to operate profitably. Consequently one would expect to find a rather high correlation between earnings and rate of output. The highest yearly rate of utilization of ingot capacity in the steel industry in the period since 1910 was 93.4% of capacity in 1916. Net income before dividends and earnings as a per cent of total capital were also highest during this year at 16.5% This, of course, reflected war time demand and prices. Similarly, in 1932, when the rate of utilization was at its lowest ebb, losses in the industry were greatest.

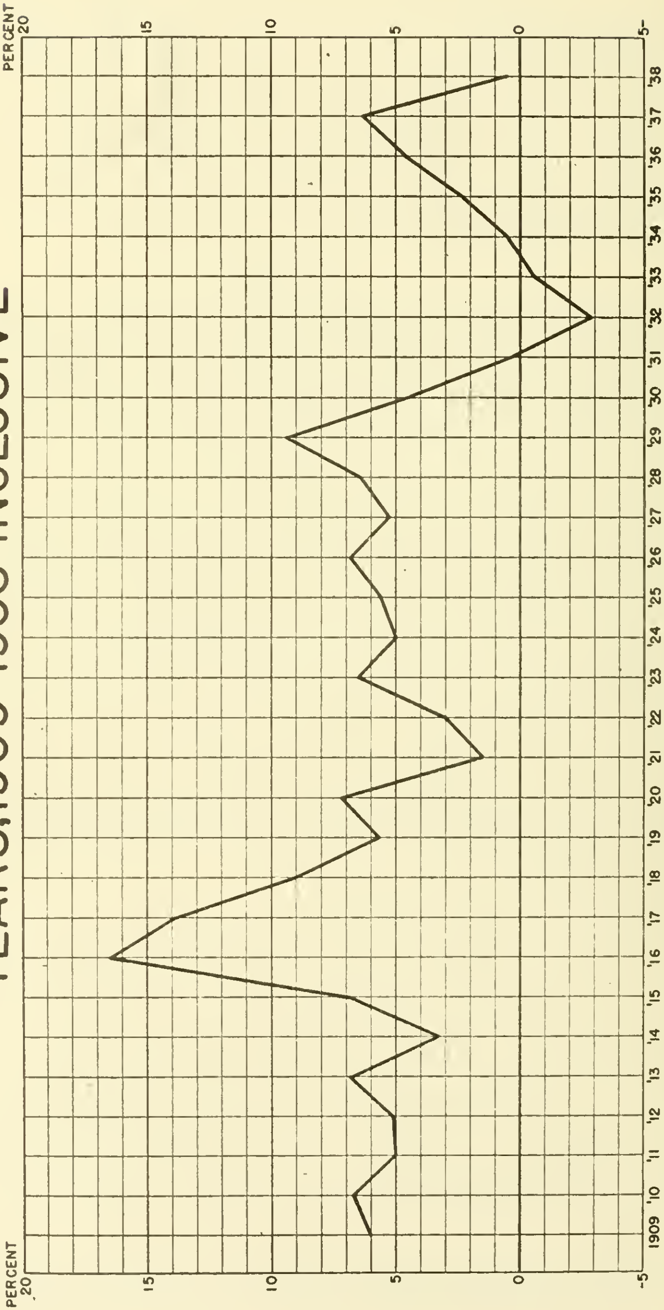
Table XXVI compares rate of earnings and rate of utilization of ingot capacity from 1909 to 1938. Obviously many other factors than the utilization rate play an important part in determining the profitability of steel operations. At no time in the past thirty years, however, has the earning rate for the industry as a whole been as high as 4 per cent when the rate of utilization has been below 60% and the only years during which the rate of earnings has exceeded 10 per cent have been those when the rate of utilization was over 90 percent. The average rate of earnings of the industry by years since 1909 is pictured in Chart IX.

In interpreting the data presented in Table XXVI and Chart IX, three important qualifications should be borne in mind. First, the basic figures used are aggregates reported by the American Iron and Steel Institute. Second, net earnings may be grossly understated because, as reported, they are net after all taxes, including federal income taxes, and taxes were not reported separately. Third, capital investment, as presented herein, is less than total investment as reported by the Institute because the latter included reserves in total investment. It is possible, of course, that reserves might be in the nature of "surplus reserves" and properly a part of investment. But as accrued liabilities not yet paid they are no part of capital investment. Since the latter is the more probable character of reserves, they have been excluded.

[8] Earnings rate which is discussed here is the ratio of net income before interest and dividends to capital stock, bonded debt and surplus.

CHART IX

*RATE OF EARNINGS OF THE STEEL INDUSTRY BY YEARS, 1909-1938 INCLUSIVE



SOURCE. AMERICAN IRON AND STEEL INSTITUTE

PREPARED BY THE DEPARTMENT OF JUSTICE

*NET INCOME BEFORE DIVIDENDS AND INTEREST AS A PERCENT OF TOTAL INVESTMENT

TABLE XXVI.—*Rate of Earnings Compared to Utilization of Steel Ingot Capacity by Years, 1909–1938*

Year	Net income before interest and dividends as a per cent of capital stock, bonded debt and surplus	Ingot production as a per cent of capacity	Year	Net income before interest and dividends as a per cent of capital stock, bonded debt and surplus	Ingot production as a per cent of capacity
1909	6.0	70.5	1924	5.0	63.8
1910	6.7	74.1	1925	5.6	74.2
1911	5.0	65.8	1926	6.8	83.5
1912	5.1	82.2	1927	5.3	74.9
1913	6.9	80.3	1928	6.4	83.9
1914	3.3	59.2	1929	9.4	88.5
1915	6.9	77.9	1930	4.5	62.5
1916	16.5	93.4	1931	0.3	37.6
1917	13.9	90.8	1932	−2.9	19.5
1918	9.0	84.6	1933	−0.5	33.1
1919	5.7	63.6	1934	0.5	37.4
1920	7.2	75.7	1935	2.3	48.7
1921	1.5	34.5	1936	4.6	68.4
1922	3.0	60.9	1937	6.3	72.5
1923	6.5	76.6	1938	0.5	39.6

Source—Compiled from Iron and Steel Institute Data.

The only check on the accuracy of the data as presented here is provided by the study of the Federal Trade Commission, *War-Time Profits and Cost of the Steel Industry*, for the years 1915 through 1918. A comparison of the Commission's findings with the information supplied by the Institute in those years is shown in Table XXVII. It will be observed that in every year investment as compiled from Institute figures exceeded that reported by the Federal Trade Commission by substantial sums varying from 1,096 million dollars in 1916 to 797 millions in 1918. True the latter reported on only 112 companies in 1915, 124 in 1916 and 131 in each of the other two years but the explanation that the difference is accounted for by variations in coverage is qualified by the fact that earnings, even adjusted to eliminate federal income and excess profits taxes, as reported by the Commission, exceed those reported by the Institute by amounts varying from 3.361 millions of dollars in 1917 to 57.698 millions in 1916. It is apparent that the Institute figures cannot be assumed to be accurate in any given year and must be regarded as indicative rather of the trend of earnings than of their magnitude.

Federal income and excess profits taxes were especially heavy during the highly profitable period of the war. A comparison of the rate of earnings reported by the Federal Trade Commission for these years with that on the adjusted basis indicates the relative importance of this item which is excluded from the Institute figures. With the qualification, then, that the data probably understates the rate of earnings, information available indicate that the Iron and Steel Industry earned an average return of 5.20% on capital investment during the entire period 1909 through 1938 or an average of only 5.47% in the pre-war years through 1914, 11.69% during the war boom, 5.73% in the post war period 1919 through 1929, and only 1.65% during the years since the 1929 slump.[9] This exceptionally small return was earned despite an almost continuous reduction in total capital investment from a peak for the entire 30 year period of approximately 5.322 billion dollars in 1929 to 4.024 billions in 1938.

[9] If reserves were included in capital investment, these ratios would be slightly lowered by amounts less than 3-10th of 1%. That is, the respective ratios in the order given above would become 5.02, 5.40, 11.35, 5.47 and 1.60 per cent.

TABLE XXVII.—*Annual Capital Investment, Net Earnings, and Ratio of Earnings to Capital Investment in the Iron and Steel Industry, 1915–1918 Inclusive*

[Investment and Earnings in thousands of dollars]

Year	Capital Investment [1]		Earnings			Rate of Earnings		
	Amer. Iron and Steel Inst.	Fed. Tr. Commis.	Amer. Iron [2] and Steel Inst.	Fed. Tr. Commis. (Adjusted) [2]	Fed. Tr. Commis. (Reported) [3]	Amer. Iron and Steel Inst.	Fed. Tr. Commis. (Adjusted) [4]	Fed. Tr. Commis. (Reported) [5]
1915	3,568,012	2,760,008	245,329	200,344	203,154	6.9	7.3	7.4
1916	4,075,762	2,979,661	673,856	616,158	634,403	16.5	20.7	21.3
1917	4,635,271	3,610,208	646,273	642,912	1,034,892	13.9	17.8	28.7
1918	4,887,112	4,089,884	411,302	405,821	819,535	9.0	9.9	20.0

[1] Includes Common and Preferred Stock, Bonded Debt and Surplus.
[2] Net earnings before bond interest and dividends.
[3] Net earnings before bond interest and dividends and Federal Income and excess profits Taxes.
[4] Rate calculated on the basis of earnings as described in note No. 2 above.
[5] Rate calculated on the basis of earnings as described in note No. 3 above.

Sources: Compiled from American Iron and Steel Institute data, War Time Profits and Cost in the Steel Industry, Federal Trade Commission.

EXHIBIT No. 1351

PERCENTAGE OF LAKE SUPERIOR IRON ORE SHIPMENTS BY MAJOR IRON ORE COMPANIES

1937

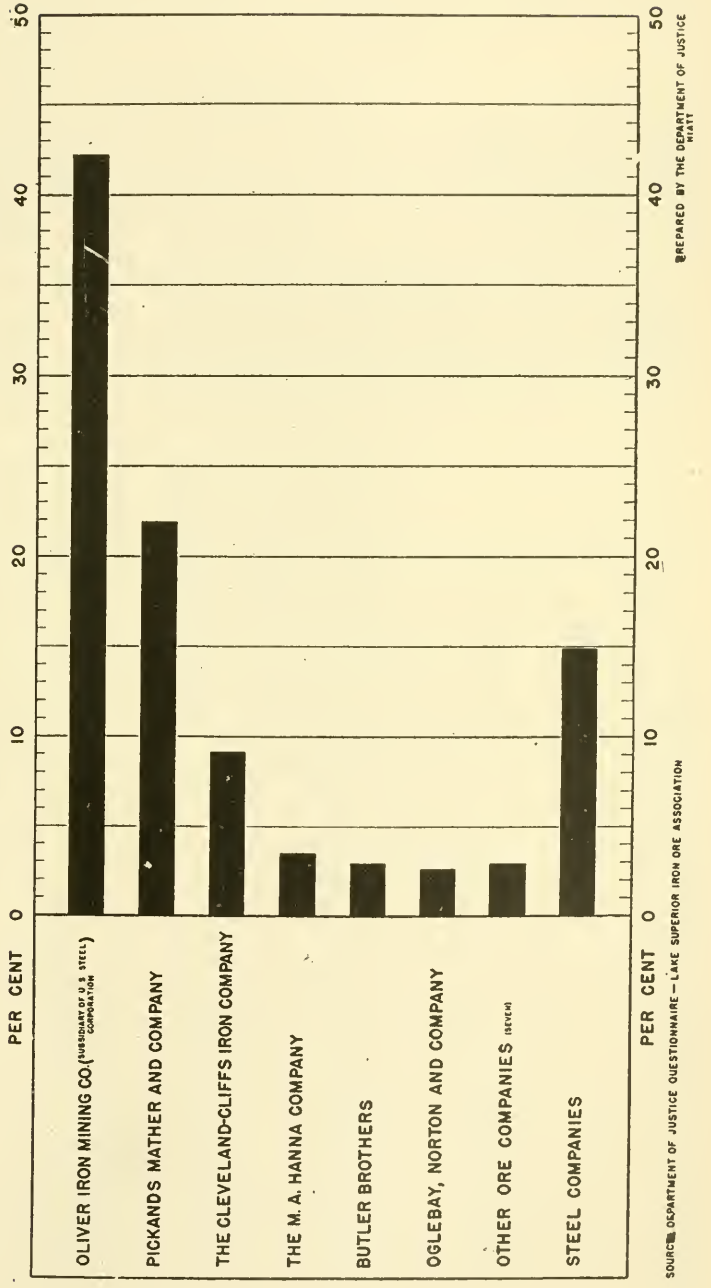


Exhibit No. 1352

Relative industry position major iron ore companies, 1937

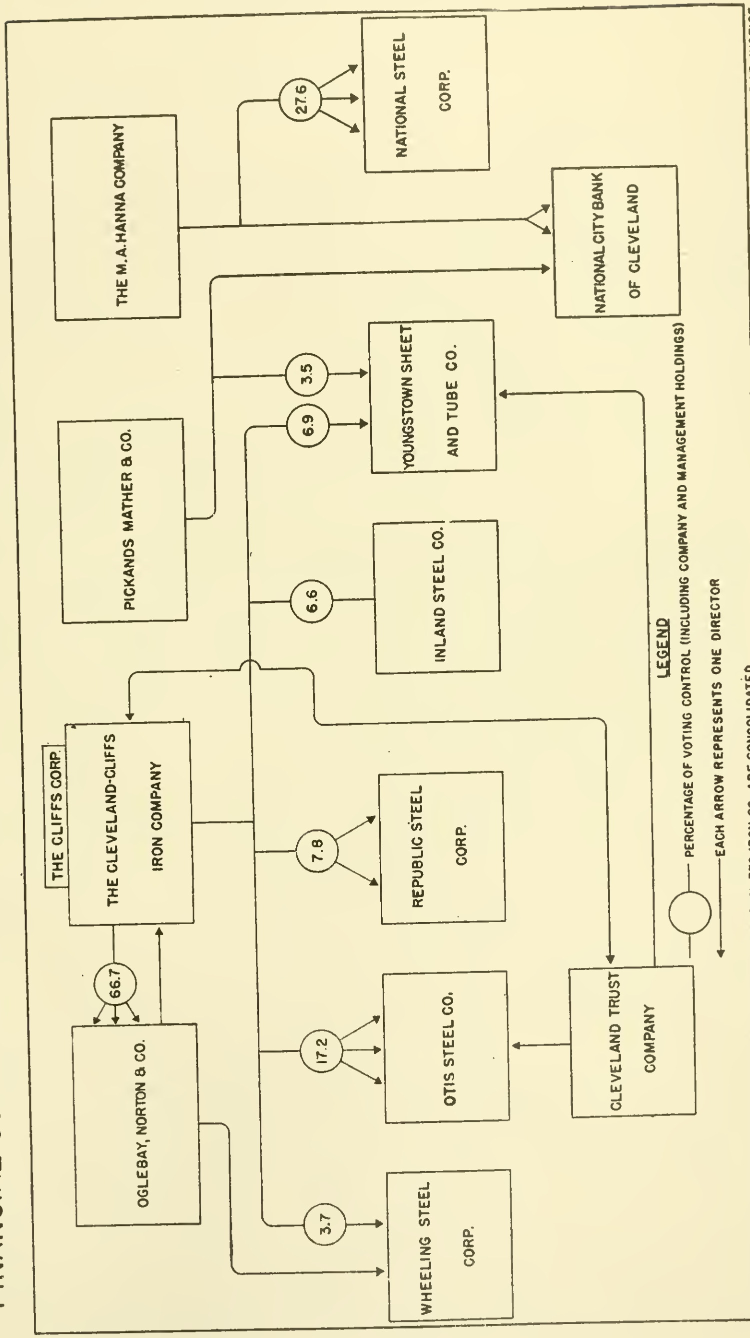
Company	Shipments in Gross Tons	Industry Percentage
Total industry	63,110,000	100.0
Oliver Iron Mining Company	26,648,159	42.2
Pickands Mather & Company [1]	[2] 13,816,332	21.9
The Cleveland-Cliffs Iron Company [3]	5,733,879	9.1
The M. A. Hanna Company	2,239,442	3.5
Butler Brothers	1,817,779	2.9
Oglebay, Norton & Company	1,636,577	2.6
Other ore companies (7)	1,816,291	2.9
Steel Companies [4]	9,401,541	14.9

[1] Tonnages shipped from properties managed by Pickands Mather & Company.
[2] Includes 181,998 tons sold and shipped from non-managed mines.
[3] Tonnages shipped from properties operated, managed or leased to others by the Cleveland-Cliffs Iron Company.
[4] Tonnages shipped from mines owned and operated by steel companies other than U. S. Steel Corporation.

Source: Lake Superior Iron Ore Association. Data submitted to the Department of Justice by the above companies in answer to the Department's questionnaire.

EXHIBIT No. 1353

FINANCIAL CONNECTIONS BETWEEN MAJOR IRON ORE COMPANIES AND STEEL COMPANIES



PREPARED BY THE DEPARTMENT OF JUSTICE

NOTE: THE HOLDINGS OF THE CLIFFS CORP. AND THE CLEVELAND-CLIFFS IRON CO. ARE CONSOLIDATED
SOURCES: DATA SUBMITTED TO THE DEPARTMENT OF JUSTICE AND STANDARD PUBLICATIONS

"EXHIBIT No. 1354," introduced on p. 10235, supra, is included in Hearings, Part 16, appendix, p. 9929.

EXHIBIT No. 1355

FEBRUARY 17, 1930.

Mr. E. B. GREENE,
Mill Pond Plantation,
Thomasville, Georgia.

DEAR MR. GREENE: To bring you down to date on negotiations with The Cleveland Cliffs Iron Company, beg to advise that Mr. Livingstone Mather has sent a letter here requesting copies of all our contracts, in order that they may be studied by him before the return of Mr. W. G. Mather, who is expected about February 24th. In this same letter Mr. Livingstone Mather suggests that all of the details of the proposed transaction be ironed out, and in pursuance of this, Messrs. Wm. Wisner White and W. B. Belden have had several conferences during the past week and have developed for approval of the principals a general outline of the various steps which they advise in the way of consummating the transaction with maximum advantage to both parties.

We have not yet submitted any contracts, as requested by Mr. Mather, thinking it advisable to determine, with respect to the contracts to be renewed, just what the terms are to be in order to avoid any misunderstandings. To that end we have made a thorough study of the Montreal contract, and this afternoon we have had a long conference with Mr. G. G. Wade, taking up all the points serially and coming to an agreement with him concerning them. Mr. Wade suggested that we write you a memorandum of this conference and send with it a copy of the present contract, which we all think should be renewed for a period of five years without any change, as will appear below:

(a) The first point discussed this afternoon referred to possible discrimination against the sale of Montreal ore. This, as you know, is a rather delicate question and one which we all agree cannot be handled in a contract. As a practical matter, the Cleveland Cliffs Iron Company could not discriminate against the sale of Montreal ore even should they have that desire, because the contract with Oglebay, Norton & Company reserves specifically to The Montreal Mining Company full control of the policy and complete direction with respect to sales, including tonnages and prices. Under that contract, The Cleveland Cliffs Iron Company or Oglebay, Norton & Company can in no sense dictate terms to The Montreal Mining Company. On the other hand, the agent is specifically required to execute the directions of the principal. There will, of course, be no change in the directors of The Montreal Mining Company, except such as are desired by the stockholders, and it is assumed that those now representing stockholders on the Board will continue to govern the affairs of the Company and, as such stockholders and representatives of stockholders, will continue to have the same interest in the affairs of the Company that they now have and will function in the future precisely as they have in the past.

Moreover, The Cleveland Cliffs Iron Company will itself have a lively interest in the disposal of Montreal ores at fair prices, because they will need to protect their own values, and any Montreal ore not covered by term contracts, and available for sale from year to year, will have their active interest as well as our own, to the end that such ores be moved at the highest practical price.

Finally, of the ores produced by the Montreal mine, about one-third is and will continue to be manganiferous, a grade which Cleveland Cliffs does not produce or sell. Our association with Cleveland Cliffs will presumably strengthen our market position with respect to the manganiferous grades, known as Ontario and Quebec, because it will give us a favorable standing with steel companies associated with Cleveland Cliffs operations. As to the other grades, namely, Bessemer and Basic, it so happens that we have none on the market at the present time. We assume, of course, that our contract with Wheeling will be renewed, which we think is a foregone conclusion. We have made a ten-year contract with American Rolling Mills Company, and have a contract with Jones & Laughlin, which runs through 1932 for Bessemer and 1933 for Basic, total 500,000 tons, as well as a contract with Weirton Steel Company having six years to run. We will, of course, want to renew the Jones & Laughlin contract upon more favorable terms, and we think that the proposed association with Cleveland Cliffs will aid us materially in getting better terms, for one reason, among others,

because Cleveland Cliffs is now selling Jones & Laughlin as much ore as we think Cleveland Cliffs desires to sell them. So far as our Basic and Bessemer ores are concerned, we would not need new association in order to dispose of our tonnage, but in the renewal of present contracts with these same associates, our chances for better values will be much increased by the proposed alliance.

We all agree, then, in thinking that The Cleveland Cliffs Iron Company, under our contract, copy enclosed, not only has no power to discriminating against Montreal ores, but has a very practical incentive to see that these ores are marketed at highest practical value.

(b) We discussed the matter of overhead charges. Here again The Montreal Mining Company is protected in its contract, for these charges can be made only with its approval. If The Cleveland Cliffs Iron Company should attempt to increase overhead charges to The Montreal Mining Company, the directors of this company could inquire into the proposed increase, and unless it were deemed fair and the proposed charges were representative of increased services rendered of the kind desired by The Montreal Mining Company, the increases could not be charged against the company. Furthermore, it is our present understanding that should the proposed transaction be consummated, Oglebay, Norton & Company will continue, as at present constituted, until such time as a major adjustment of some kind is made involving a consolidation of the two offices. When that occurs, if at all, The Montreal Mining Company can rest secure in its contract with Oglebay, Norton & Company, and successfully challenge any increase in overhead charges which may be proposed if such increase is regarded by the Montreal directors as excessive. In this connection, it should not be overlooked that an amalgamation of the offices may, and as we see it should, work toward lower overhead charges for all of the mines, both Cleveland Cliffs and our own.

(c) Mr. Wade advanced for consideration in the conference whether it would not be fair and proper, in case of a sale of the mine during the life of the proposed contract, that is, five years, to limit the commission with respect to ore then sold but undelivered, to say 5¢ per ton. This idea is based on the thought that the actual cost of selling and delivering is say 6¢ per ton. It was concluded that this idea should not be brought into the contract for the following reasons:

The right to the full commission for ore sold but undelivered is looked upon as part of the assets of Oglebay, Norton & Company. It has been customary for many years past in our office, and also in the trade in general, to pay the full commissions in circumstances such as these, and it was thought that no exception should now be made in the case of The Montreal Mining Company, particularly because, among other reasons, it would be challenged in all probability by The Cleveland Cliffs Iron Company, which would expect the Montreal Company to deal with it on the same basis, that it has heretofore dealt with Oglebay, Norton & Company, and which, as said above, is the common practice of the trade in other offices such as ours. In this connection, Mr. Wade also generously recognized the long association of Oglebay, Norton & Company with The Montreal Mining Company and the part which our older management had in making advantageous purchases and leases of the properties, creating the basis of the asset which the Montreal mine now represents; and Mr. Wade also recognized the services of our younger management, which, inheriting the fruits of the activities of the older management, developed the property from a relatively small producer to one of the greatest mines in the Lake Superior regions.

As a practical matter, the difference between 10¢ and 5¢ on ore sold but undelivered at any time is not a large amount of money. On the average it probably would not at any time exceed $125,000.00, because it is hard to conceive that ore sold but remaining undelivered at any time would be in excess of 2,500,000 tons, or 2½ years' production, which is one-half the production covered by the proposed contract. In this connection, it may be remarked too that the agent, in this case Oglebay, Norton & Company, would be of material assistance to The Montreal Mining Company in effecting a favorable sale of the mine. If the property were sold, it would doubtless command as much as $10,000,000.00 or more.

(d) Mr. Wade brought forward for discussion a possible new form of contract under which the agent would be paid say 5¢ per ton, and, in addition, a percentage of the annual net profits of the company. We believe that such a contract is not in the interest of The Montreal Mining Company. So far as increasing the value of the ore itself is concerned, we may say that although the agent plays a part, the course of values is not under its control. The value of ore is determined by so many factors not under the control of the agent, or even

susceptible of influence by him, that he is not fairly entitled to an increased commission on rising ore values. The proposed transaction is in itself in the direction of bringing about better values. The Montreal Mining Company has now some contracts at rather low values which will undoubtedly be renewed at better values, and any commission based on percentage of present profits of The Montreal Mining Company would become unduly large, as the profits of the company are increased by better ore values.

As to mine costs, we would call your attention to the fact that the contract expressly provides that the agent in managing the mine is at all times subject to the direction and control of the Montreal Board of Directors. While in the past, by reason of close relationships, considerable latitude has been permitted to Oglebay, Norton & Company as such agent, nevertheless under the terms of the contract that management is at all times subject to such control and direction. Undoubtedly the Board will continue to be composed of the same individuals as at present for years to come, so that the same knowledge of proper mine operation will be at all times at the Board table. It is our view that if the officers and Board of Directors haw the same interest and give the same attention to the property in the future as in the past, the management of the mine will continue to be as efficient as it has ever been, for that management must at all times follow the directions of the Board. Moreover, it must not be overlooked that it is a part of the plan that Oglebay, Norton & Company, with its present personnel, shall continue to function as a separate organization for some time to come, and as such separate organization will function just as it has heretofore, and it is only if and when some major change occurs that we need to consider this question of mine costs, from which time the control lodged in the Board of Directors will in our judgment take care of this matter.

Since this proposed transaction several months ago became a possibility, the undersigned and others associated with him have been giving it very careful study, having in mind the interest of all the properties which we represent. We have all come to the conclusion that the consummation of the proposal will bring these properties into contact with new and strong associations, will undoubtedly increase the value of the ores to be mined and marketed in future years, and will introduce us and the owners of the properties to a much closer contact with and knowledge of developments broadly in the steel business, which, of itself, will work to the ultimate advantage of the properties.

We are authorized to say that Mr. Wade has read this letter and approves of the recommendations herein made, which are all embodied in the proposal to renew the Montreal contract for a period of five years without change. We may add that Mr. Russel also approves, and that the Bristol Mining Company is agreeable to making a similar contract.

If you approve of our conclusions, will you not kindly notify us by wire or telephone? We would like your early attention to this matter for the reason that Mr. Livingstone Mather wants to have everything in shape to present to Mr. William G. Mather on his return here February 24th. If you do not approve, and desire further discussion, I will be very glad to get on the train and go down to Thomasville to talk with you. We here feel, as does Livingstone Mather, that this transaction should be consummated, if at all, before Mr. William G. Mather's departure for Europe, about March 15th. If the deal is made by that time, we will, of course, approach this year's business from that point of view, and we think it will be very advantageous to have the cooperation of the two groups established for the benefit of this year's sales.

With kindest regards, I am

Sincerely yours,

OGLEBAY, NORTON & COMPANY,
By ——— ———, *Presi ent.*

EXHIBIT NO. 1356

Oglebay, Norton Arrangement.

May 29, 1930.

MR. S. R. ELLIOTT,
Manager, Ishpeming, Mich.

DEAR SIR: You will have seen by the papers that The Cleveland-Cliffs Iron Company has made an affiliation with the Oglebay, Norton Co. The statements that have appeared in the Cleveland papers are worded unfortunately, in that they have connected the deal with Mr. Eaton's activities. This is not true, because Mr. Eaton had no connection with the negotiations, but simply voted for it as a Director of The Cleveland-Cliffs Iron Co.

The Daily Metal Trade of May 29th has a statement of the transaction which was practically prepared by this office, although it is somewhat shortened from the statement that I approved.

The Oglebay, Norton people will continue to run their business as heretofore. The advantages that will accrue to us are that we share in their net profits to an appreciable extent, and that we are placed in a position of greatly minimizing, if not entirely preventing, tendencies which have prevented iron ore producers from getting a reasonable price for their product. We are on friendly and social terms with the Oglebay, Norton people, and the principal mines for which they act as agents are controlled by the Wade Estate, representatives of which, Mr. Garretson Wade and Mr. E. B. Greene, are Directors of The Cleveland-Cliffs Iron Co.

I think it is an excellent move and will have a stabilizing effect on the conduct of the iron ore industry, but you can see that it is a relationship which we do not want to talk about, as such publicity might result in opposition on the part of the public or the consumers to a move which they may construe as tending towards an undue control of prices.

Since my return I have been giving some attention to the affairs of Corrigan, McKinney & Co., of which we now own 62½ per cent., but owing to pressure of other affairs my study of the situation has not been as yet very thorough. I shall want you to arrange, as soon as you can conveniently, to have the mines of Corrigan, McKinney & Co. examined from the standpoint of geology and operation and plant, so that I can get the opinion of your organization upon their value without undue delay. The manufacturing plants of the company are now being reported upon by Mr. Brassert, the eminent engineer, but the iron mines I shall want reported upon by your department.

As may be convenient and desirable by you, you can arrange, of course, now that we have this affiliation with Oglebay, Norton & Co., to look into the operations of the mines which they manage, and whose ores they sell at any time that you may wish, and I am in hopes that this exchange of opinion between your operations and Corrigan's operations and our own operations, may be productive of exchanges of experience which may be helpful to all three of us.

I wish to add a word of caution to the way in which you and your lieutenants may comment upon these important moves of our company. The Oglebay, Norton Company occupies a very sound and honorable position in the trade, and I would not like to have any opinions come from any of our officers, either here or up above, which would indicate that we intended to exercise any control over their operating men. They have had an independent position as operators and feel that they have been doing excellent work and would, I imagine, dislike to have the idea spread that we, the older and stronger company, were going to take any position of criticism or control over their mining operations.

With respect to the operations of Corrigan, McKinney & Co. they also, for the time being at least, will be run as heretofore. In time, however, after we have thoroughly familiarized ourselves with the situation, we may take a different position to the extent of exercising supervision.

Yours truly,

——— ———, *President.*

WGM:F.

(In ink:) Certified true copy

E. H. Jaynes,
Secretary The C. C. I. Co.

Exhibit No. 1357

The Cleveland-Cliffs Iron Co.

Offices 14th Floor Union Trust Building

Wm. G. Mather, *President*
S. L. Mather, *Vice President*
C. G. Heer, *Treasurer*
V. P. Geffine, *Secretary*
E. H. Jaynes, *Ass't Sec'y*

Cleveland, Ohio, *January 27, 1930.*

Mr. Crispin Oglebay,
c/o P. W. Harvey,
Pebble Hill Plantation, Thomasville, Ga.

My Dear Chris: Livingston and I had a talk today with Messrs. Allen and Norton, and I felt obliged to say that I could not give assurances that the deal between us could be carried out at the present time.

I feel that the amount which has been mentioned up to this time for us to pay is very large, considering that the cash returns upon it which are dependent upon the continuance of the profitable contracts which you now enjoy, are not assured for any definite length of time. There are, to be sure, advantages which will accrue to the owners of the fees and to those interests which are more or less associated with us, who have in mind the desirability of enlarging the mergers of steel companies which are now in progress. For that reason, I am sympathetic with the idea in principle, but, as said above, the amount we have discussed, and the importance of the deal so great, that I cannot commit myself to an approval of it until I have had a consultation with practically all of our directors. It will not be possible to have such a meeting and consultation before my return from the West Indies trip, which will be the latter part of February. I hope that this will not break off the negotiations which have been carried on and that they can be resumed on my return, and in the meanwhile our people can be considering carefully the details which we consider important for the success, looking at it from both sides of the proposed deal.

Yours truly,

(Signed) Wm. G. Mather,
President.

Copy to Mr. E. B. Greene.
(In ink: W G M expects to return 2/23. leaves again 3/15.

Exhibit No. 1358

[Copy of telegram]

Thomasville, Ga., *January 26, 10:17 P. M.*

W. W. White,
Union Trust Building, Cleveland, Ohio.

I have talked with Wade and Green and they approve of general plan and ask the following telegram be sent as representing their thoughts. I think their recommendation for specific considerations are entirely proper and have advised them in my opinion they would be so recognized stop As individuals we are heartily in favor of Cleveland-Cliffs company acquiring Oglebay, Norton & Company under the proposed plan believing that this merger tends to stablize the market value of ore. As directors of the Montreal Mining Company we would not favor entering into a contract longer than five years or even for that period unless such contract insured first the same high standard of management and individual attention to the affairs of the Montreal Mining Company which it has enjoyed in the past second that a plan be devised so that the Montreal Mining Company can be assured that its ore will be sold in such manner that there shall be no discrimination against its ore in favor of ore from mines owned by The Cleveland-Cliffs Company, third that the amount of overhead expenses charged in the future against the Montreal Mining Company shall not exceed the amount of such overhead expenses charged to the Montreal Mining Company in the year 1929 computed on the same basis and should the Directors of the Montreal Mining Company desire to do so that compensation involving a smaller fee per ton plus a percentage of net earnings might be substituted for the present compensation in some manner so that the net earnings of the Montreal Mining Company would directly effect the total compensation received by the Cleveland-Cliffs Company. Fourth, that the same relations between The Oglebay, Norton and Company as Agents and the Montreal Mining Company as mine owners be continued the Board of Directors of the Montreal Mining Company continuing to pass on all matters of General Policy such as annual production, sales contracts, etc.

Crispin Oglebay.

(In ink:) Certified true copy.

E. H. Jaynes,
Secretary, The C. C. I. Co.

"Exhibit No. 1359", introduced on p. 10259, is on file with the Committee.

EXHIBIT No. 1360

8-2-34

STATEMENT OF WM. G. MATHER TO THE BOARD OF DIRECTORS OF OTIS STEEL COMPANY

Mr. President and Members of the Board:

I desire, in behalf of myself and the other Board members who are also Directors of The Cleveland-Cliffs Iron Company, or officials of that Company, to state our position with reference to the proposed negotiations with Republic Steel Corporation and The Corrigan, McKinney Steel Company. We feel, and are advised by counsel, that in view of the large ownership of The Cleveland-Cliffs Iron Company in the stock of Corrigan, McKinney and its substantial ownership of Republic stock, as well as its ownership of shares in Otis Steel Company, it would not be proper for us to vote upon or participate in any corporate action involving the sale of the assets and business of Otis Steel Company to, or its consolidation with, Republic, and in case the time arrives when such questions are presented to this Board for determination, we will withdraw, leaving the other members of the Board free to act in such manner as they shall deem for the best interests of the Company.

We are, however, advised by counsel that it is not only our privilege, but it is our duty, to express to the other members of the Board our general views as to the desirability of giving consideration to this subject so that you may have the benefit of such general information regarding the industry as we possess and be advised as to how the large stock interest which we more particularly represent regards it.

While no one appreciates more than we the excellent record made by the management of Otis Steel Company, especially during the first half of 1934, we think, nevertheless, that it would be for the best interests of the Company to bring about the consolidation on some fair and proper basis of Otis Steel Company with Republic and Corrigan.

We are not assuming to suggest to this Board the basis on which it would be advisable to enter into such a merger. We do, however, feel that in view of the present condition of the steel industry it would be for the best interests of this Company to have the question of such a consolidation carefully investigated and considered by a strong committee of disinterested members of this Board of which committee, we request, Mr. President, that you should be a member. I hope you will receive this suggestion in the open minded spirit in which it is presented and that the Board may have the benefit of such an investigation and report as I have indicated.

I am advised by counsel that my associates and I may properly vote for the appointment of such a committee but we would not, of course, expect to vote upon any recommendations it may make.

(In ink:) Certified true copy.

E. H. JAYNES,
Secretary, The C. C. I. Co.

EXHIBIT No. 1361

Inter-office letter

THE CLEVELAND-CLIFFS IRON CO.,
Cleveland, Ohio, April 14, 1936.

Subject: Republic Steel.
Reference:
Memorandum:

In connection with our business with Republic Steel Corporation covering iron ore floatage by boat and railroad freight, also coal floatage, and mine leases, the writer, during his illness, has had the following contacts directly with Republic. In February when we held our directors meeting in New York the writer had an hour's conference with Mr. Girdler in his office at which Mr. Girdler himself agreed that he desired to work in closest harmony with Cleveland Cliffs Iron Company, and he felt the best way to bring about those results was to have Messrs. Brown and Raymond and possibly one or two others meet with Messrs. Wysor, Ilgenfritz, and Gosewisch, and if they could come to terms then it would be unnecessary for either Mr. Girdler or the undersigned to give the matter any

time, but if they could not agree then the matter was to be referred to Mr. Girdler and the undersigned, and Mr. Girdler promised at that time that he would bear in mind his assurances as to friendly relations just recited. Mr. Girdler went on to say that he expected his associates to represent Republic to the best of their ability and that he knew Cleveland Cliffs did not want anything that was not fair, but it was his desire to have Republic do as much business as possible in justice to Republic's own welfare with Cleveland Cliffs. The writer expressed his entire approval of Mr. Girdler's assurances and we then went on to discuss the question of a common general counsel, this matter having come up because of the death of Mr. Belden. At the close of the interview, in order that there should be no misunderstanding, the writer recapitulated the agreement using Mr. Girdler's own words as nearly as possible, Mr. Girdler agreeing to this recapitulation.

Following Mr. Brown's and Mr. Geffine's visit to Thomasville at which we discussed, among other things, the Republic matter, at the suggestion of Mr. Brown the writer wrote to Mr. Girdler reminding him of this matter, telling him when I would be back in Cleveland, and assuming that his ideas had not changed. Following long distance conversations from the office about the middle of March the writer wrote Mr. Girdler again telling him that his return had been somewhat delayed owing to illness and asking Mr. Girdler's forebearance in waiting for his return to Cleveland. Upon the writer's return to Cleveland March 30th he went immediately to the hospital. Meanwhile the negotiations were coming to a crisis. Accordingly I wrote Girdler on April 7th suggesting an appointment at soon as the writer was well enough. He suggested an appointment Friday the 10th which had to be postponed on account of the writer's health. On the 13th I wrote him again suggesting the possibility of an appointment with him in New York on the 16th. Upon receiving somewhat pessimistic views regarding the progress of the negotiations, and even more Mr. Girdler's remarks that he might question Mr. Brown's assurances that the writer was still sick, the writer disobeyed the doctor's instructions both to leave the city and to take no part in business negotiations and called at Mr. Girdler's office today, having nearly an hour's conference with him.

The writer explained to Mr. Girdler that he was leaving town to avoid being drawn into business matters, but that he could fully understand that Mr. Girdler might be puzzled that I could see him in New York and not in Cleveland and might think that I was purposely delaying the matter. I explained my physical condition and Mr. Girdler said he thoroughly understood the matter and hoped that the writer had not misunderstood him.

The writer then said that he wanted to discuss with Mr. Girdler three things: first, the big general policy which looked into the future of both companies, then going back into the original plan of a midwest steel company and Cleveland Cliffs' relation to it, and calling attention to the very large holding in Cliffs Corporation and the possibility that matters of investment in steel companies might be arranged to further the growth and prosperity of Republic as well as Cleveland Cliffs. Second, the writer wanted to discuss with him the negotiations now being carried on which possibly Mr. Girdler felt were not proceeding as fast as possible. Mr. Girdler interrupted to state that he had kept out until recently but was now in quite deeply and Mr. Wysor said that he was now as fully acquainted with the details as he Wysor was.

Outside of very minor matters his criticisms were that Cleveland Cliffs stated that opening up the Jackson Mine on 50¢ royalty was of no advantage, and second, that we were not giving them allowance enough for other advantages such as profit on float, etc. He stated that opening up the Jackson Mine on a 50¢ royalty basis, and taking into consideration other matters, was certainly of great advantage to us and he did not like us to deny it. Also he felt that we were not crediting them sufficiently with the advantage we receive from floatage and freight, and said that these should be as fully considered as the price of ore. He then went on to tell me that he had several offers to transport ore at not quite 15¢ but nearly that figure less than the market. He then went on to recite how one man had tried to threaten him through his railroad interest unless he got a big chunk of floatage and how he had straightened the matter out by telling him they were not receiving enough steel business to cover the present freight the railroads were receiving. He advised the man to go back and find out where he stood in the railroad end, and later he was advised by the railroad man that he had gotten off on the wrong foot. He said he wanted to give Cleveland Cliffs the floatage for ten years and then be able to tell the others he was out of it, and that he was sincere in wanting to do business with Cleveland Cliffs but that it must be on a basis fair to Republic.

The writer kept the conversation on generalities and it never was a matter of getting down to detail. The writer concluded the conversation by saying that

whatever gap there was he felt might be entirely closed by the meeting set for tomorrow morning at nine o'clock and he hoped that such was the case, but that he had remained over not only to see Mr. Girdler today but with the hopes of seeing him again tomorrow should the meeting not conclude the negotiations. The matter closed in the friendliest way, Mr. Girdler saying he would follow the program closely and would call at the writer's house if it was more convenient and would save my coming downtown.

After this matter was disposed of Mr. Girdler then discussed the question of directors, but concluded by stating that that whole subject could be discussed upon my return and that it could well wait without disadvantage. He said he would be pleased to have me on the board, giving his reasons, and also that he would be pleased to have Mr. Mather on the board, also giving his reasons, but that he had advised Mr. Brown that he could not put either of us on the board until the New York Central and Otis Steel situations were changed. The writer agreed with him that this matter could well rest until his return, and we concluded with a discussion of purely personal matters.

EBG JS

E. B. GREENE, *President.*

(In ink:) Certified true copy.

E. H. JAYNES,
Secretary, The C. C. I. Co.

EXHIBIT NO. 1362

[Inter-Department Correspondence]

BUTLER BROTHERS

AND

MANGANIFEROUS IRON COMPANY

Union Trust Building, Cleveland, O.

SEPTEMBER 4, 1928.

DEAR DAD: I talked with Hoyt this afternoon relative to our counter proposal.

The minimums and maximums as you suggested are agreeable to him. However, he wants first call on any additional tonnage our present properties might show up. This is to keep us out of the market as much as possible. This first call means that should we feel we ought to produce more, or that we are in a position to take on additional contracts, that we should offer the ore to them before we do so to anyone else.

He said our proposal worked out better for us than our present contracts, notwithstanding the fact that P. M., were putting up two million dollars.

The first million tons in his estimation should be priced at $3.50 per ton, with full Non-Bessemer premiums for iron only. Hoyt wanted to know whether we would share in a decrease if the market price of ore went down. This is in answer to your sentence stating "that in case of increase in market, Butler Brothers are to receive 50% of such increase."

He suggested as a price after the first million tons have been delivered of $3.80 minimum for 53.00% natural iron and .035 phosphorus, plus 50% of the difference between $3.80 and the full market price. This makes his price on this year's market of $4.216 as against your proposal of $4.379. For variations from the above analysis full unit values are to be taken.

He wants to float all the tonnage saying that Bethlehem would insist on it.

He has agreed to split 75–25 if the purchase price of stock is less than two million dollars.

I will telephone you this evening. Hoyt wants to go east Sunday night so I should have your ideas on or before Saturday. He says that he needs only our assurance that we can get together on about this lineup to go ahead with Bethlehem, and that we need not commit ourselves definitely.

Yours,

(Signed) PAT.

PB:K.

(Stamped:) Certified true copy from files.

BUTLER BROTHERS,
By (Signed) F. J. MCARTHUR,
Treasure.

EXHIBIT No. 1363

SEPTEMBER 19, 1934.

Mr. G. M. HUMPHREY,
1300 Leader Bldg., Cleveland, Ohio.

DEAR GEORGE: Many thanks for your note regarding Alec. I am very much pleased to find that such men as yourself, Leonard, Elton, and others have been pleased by the appointment and so sincerely welcome Alec into our "union".

I am glad that the iron ore business is so largely in the hands of a small group of men who all work on a close and friendly basis.

Sincerely yours,

——— ———, *President.*

EBG JS.

(In ink:) Certified true copy.

E. H. JAYNES,
Secretary, The C. C. I. Co.

"EXHIBIT No. 1364," introduced on p. 10296, is on file with the Committee.

EXHIBIT No. 1364-A

Personal.

OCTOBER 17, 1936.

Mr. S. R. ELLIOTT,
Mgr., Ishpeming, Mich.

DEAR SIR: This will confirm our conversation over the long distance phone last evening. Yesterday morning Mr. Elton Hoyt called the writer asking for an appointment with him and Mr. Brown, saying he had an important matter to discuss with us.

At the ensuing conference he stated that he had been north for a couple of weeks and had had a long conversation with you in which you mentioned a change in working hours. He was somewhat disturbed by this as there has been an understanding for several years, originating, I imagine, at the time of the first discussions over the N. R. A., that any changes in pay, hours, working conditions, etc. would be discussed among the big employers before action was taken so that the industry might present a united front. He further stated that in view of the numerous connections our two companies had, that he was surprised that we should have made this change without explaining the matter to him. Both Mr. Brown and the writer told him frankly of the conference which you had had with Mr. Brown when you were in Cleveland on September 22nd, and with the writer on our boat going north, and that at both these conferences we had inquired particularly as to whether the new regulation was the same as that in force at the mines of our competitors. Both of us assured him that our new arrangement was complying with their condition, and that we had been the only one of the big ore companies who brought our men to the surface for lunch, and we saw no reason to advise the others when we were simply getting in line with them.

Mr. Hoyt then went on to say that we had not gotten in line with them but in his opinion, and in the opinion of Mr. Salsich, we had given the equivalent of a raise in pay inasmuch as we were paying for eight hours and not receiving that amount of labor. Mr. Brown then went into it in some detail with Mr. Hoyt but Mr. Hoyt insisted that either we were misinformed or that the situation in our own mines was not as we stated.

He left our office, not satisfied that we were correct, but greatly pleased to find out that we had not knowingly changed working conditions without notification to them. Mr. Hoyt called the writer later in the afternoon saying that he had investigated the matter carefully by telephone, and I think he had talked with both his own men and the Oliver Mining men, and stated that the facts of the matter were these: that their men reached their working places at 8:00 and left the working places at 4:30, and that they were allowed 30 minutes for lunch; that our men arrived at the working places at 8:00, left them at 4;00 and therefore ate their lunch out of the 8 hours time, our men reaching the surface half an hour earlier than either the Pickands Mather or Oliver Mining men. He then asked us if we were willing to have you meet with either Mr. Chisholm or Mr.

Chinn, and Mr. Salsich or whoever he nominated, and discuss this matter. He said it might not be possible to change our position, but he felt that at least we ought to be willing to talk it over. The writer agreed that his request was reasonable, and put in a call for you. As you were down in one of the mines we could not reach you until after I had reached my home.

It seems obvious to the writer that in our own case the men are eating their lunch on the company's time, while in the case of Pickands Mather and the others to whom Mr. Hoyt refers, (assuming they take no more than 30 minutes) they are eating on their own time and giving the company the full 8 hours of service. It is fair to assume that the eating time of the miners is approximately the same whether employed by us or by the other companies. The writer concurs in your views that there are certain employees whose work is intermittent and who could undoubtedly eat their lunch in between times in such a way that the company would not be the loser by their eating their lunch on the company's time. It is also true that to the extent that our mines are now or will work on a three-shift basis, that it is necessary for the men to follow the system which we have installed. Therefore Mr. Hoyt's objection applies only to the mines which are not working on a three-shift basis; and further, that the company is not a loser by having men whose work is intermittent take their lunch on the company's time. Unquestionably however, our system differs from theirs, and in accordance with the understanding, it would have been better had we either consulted Mr. Hoyt or at least advised him of our change.

You may possibly think that Mr. Brown, and especially the writer, are giving more consideration to a partner of one of our competitors than is justified, and I would be sorry if you have this impression. I would like to remind you that it was largely through Mr. Hoyt's hearty cooperation that we were able to get the Bethlehem Steel Company to operate the Negaunee Mine as we desired for the past several years. Mr. Hoyt's cooperation with this company, both in matters pertaining to partners' attitude as well as during our financing was helpful in an outstanding way, and I am explaining this only because I think you feel that we are magnifying the importance of cooperating with him. I am sorry to have you go to the trouble of meeting with these men as it takes you away from your work at this busy time, and also because I think you prefer not to do it, but it seems to us that it is in our best interests to comply with Mr. Hoyt's request. I am sorry that in your discussions with Mr. Brown and also with me that we did not fully understand that future working conditions would be different from those of our competitors. Undoubtedly we would have felt a perfect right to do as we have done, but also undoubtedly we would have avoided their criticism by advising them of our intention.

Very truly yours,

——— ———, *President.*

EBG JS.

(In ink:) Certified true copy.

E. H. Jaynes,
Secretary, The C. C. I. Co.

Exhibit No. 1365

[Copy of Western Union telegram]

(52)

Received at The Waldorf Astoria New York, N. Y. *1937 May 8 PM 3 52*
NS 127 127 DL Cleveland Ohio 8 322P

E. B. Greene,
Waldorf Astoria Hotel:

Very important meeting Tuesday morning Pickands Mathers office Same personnel previous meeting and in addition Butler representatives will be present Elliott cannot attend account of meeting on Mesaba but will send Jackson Believe important you should be here Stop After discussing with Veach I telephoned Elliott compromise suggestion I made you by telephone today which he says helps situation but still is not convinced though entirely willing to do his very best Stop Schneider advises he wired you Waldorf yesterday regarding White He tells me thinks he is all right but not had whole lot of experience and is pretty

green White wishes to discuss with Bob and Chris and will advise Schneider Monday Schneider told him any definite arrangement would have to be considered after your return.

A. C. Brown

(In ink:) Certified true copy.

E. H. Jaynes,
Secretary, The C. C. I. Co.

Exhibit No. 1366

May 24, 1938.

Curtailment.

Personal.

Mr. S. R. Elliott, *Mgr.*,
Ishpeming, Mich.

Dear Sir: I have read with interest your letter of the 19th inst. to Mr. Brown, to which was attached the minutes of the Superintendents meeting held May 17th. It would seem that this work is progressing satisfactorily.

As time goes on I see nothing in the future that would make us feel that these reductions are unnecessary. In fact, each week brings additional reductions in the schedules of the steel companies. I am afraid when the automobile industry shuts down this summer for inventory and preparations for the new models that the situation is going to be even worse. I doubt if the situation in 1932 or 1933 was any worse than at present, the only difference being that people are used to it and are taking it more philosophically.

In connection with the curtailment of personnel I want to confirm my talk with you in Cleveland. Namely, that Fayette Brown Jr. was taken on as a matter of policy and due to the insistent request of Mr. Elton Hoyt. As you know, Mr. Dalton's health is far from good and the responsibility for handling the affairs of that firm rests, in very large measure, on Mr. Hoyt's shoulders. Even though it may cause you some embarrassment I think there is no way out of it but to continue his employment, and I think it wise that he should have more experience at the mines before bringing him to Cleveland. If it would in any way help your situation, you might transfer him to the Athens Mine in which Pickands Mather are practically half owners, and you could explain his continued employment on the basis that he was representing Pickands Mather's ownership.

As Mr. Mather has placed his step-son, the writer a nephew, and Mr. Brown and Mr. Geffine each a son in other lines of business, I think you may accept at face value the statement that Fayette Brown Jr. was not employed on account of his relationship to any officer of this company, but was employed because we value very highly the co-operation which we are getting from Pickands Mather. I want you to know that in our dealings with the Bethlehem Steel Company regarding Negaunee Mine affairs, Mr. Hoyt personally has been of tremendous help. Our relationship now is on a basis which possibly does not make his intervention at all necessary, but our relationship with Bethlehem would not be what it is if it had not been founded on his efforts in our behalf. During the troublesome times which started with, say, the N. R. A., right up to the present time, the interests of Pickands Mather and ourselves have been working in the closest harmony, and the combined efforts of these two interests have brought about a united front in the ore industry. I am speaking from absolute personal knowledge of these matters.

I am going to all this trouble because I want you to understand why I am so insistent about this matter. I feel certain that if Fayette Brown Jr. were dropped, Mr. Hoyt would interpret it as a personal reflection on him, which, of course, would not be in your mind or mine, but in view of this peculiarity I have no alternative but to request you to continue him up north in whatever line you find suitable.

Very truly yours,

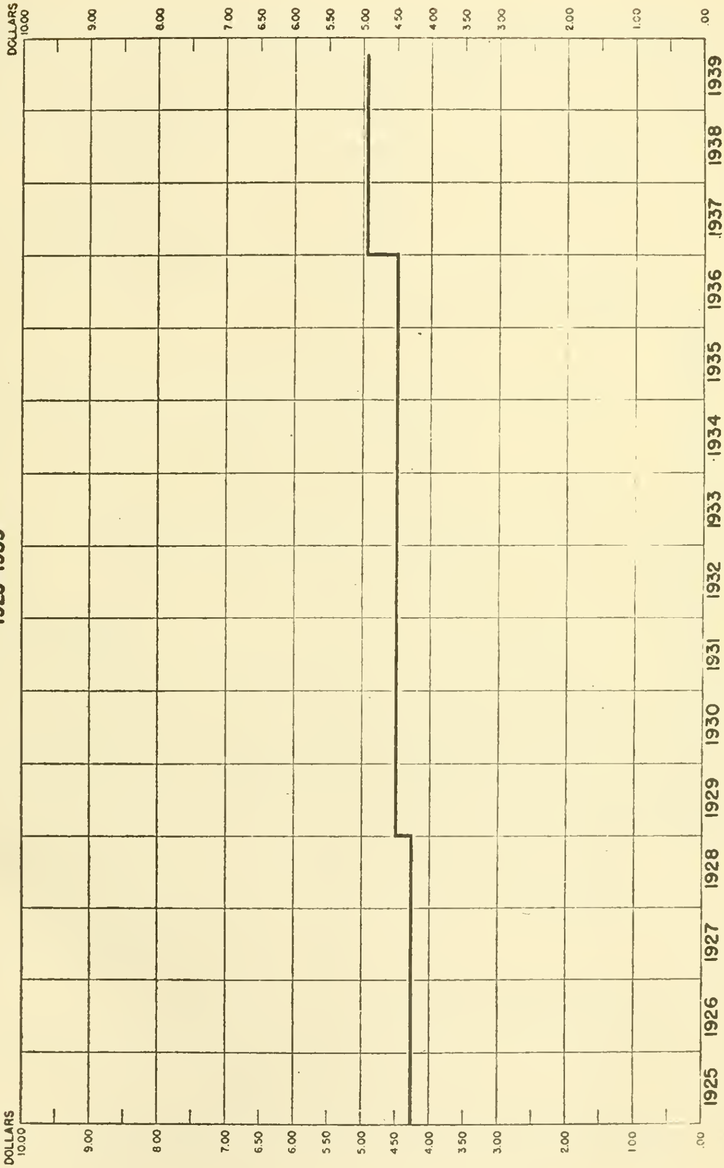
——— ———, *President.*

EBG JS
(In ink:) Certified true copy.

E. H. Jaynes,
Secretary, The C. C. I. Co.

EXHIBIT No. 1367

IRON ORE PRICES*
1925–1939



SOURCE: LAKE SUPERIOR IRON ORE ASSOCIATION

*BASE PRICES PER CROSS TON OF LAKE SUPERIOR IRON ORE AT LAKE ERIE PORTS—MESABA NON-BESSEMER ORES—51.50 IRON NATURAL CONTENT

PREPARED BY THE DEPARTMENT OF JUSTICE

Exhibit No. 1368

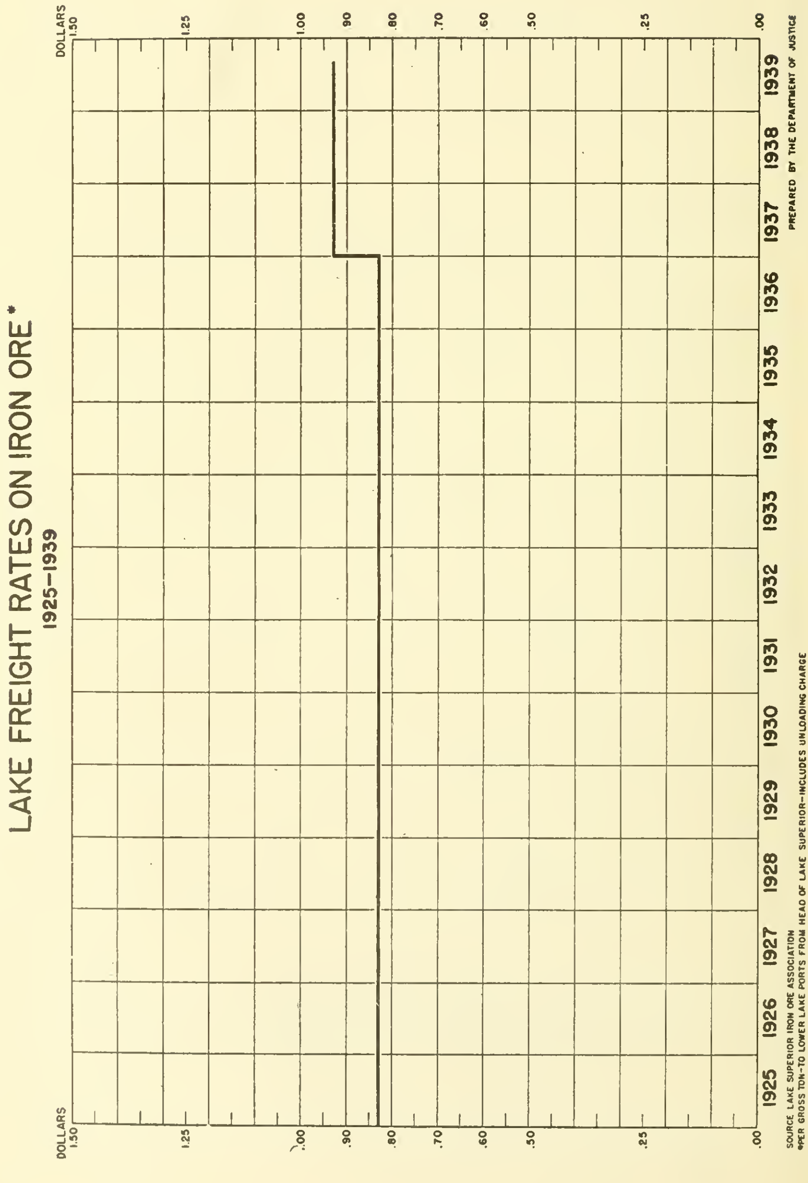


Exhibit No. 1369

Butler Brothers,
Cleveland, Ohio, April 10, 1934.

To Mr. Emmett Butler
Subject:

Dear Dad: I saw Hoyt yesterday at which time he told me the ore magnates had decided to retain last year's market price. This price will be held regardless of what Ford does. We mailed our bid to Ford yesterday as did the others.

Hoyt says Pickands-Mather hope to take their minimum from us of 200,000 tons plus all the stockpile which we figure to be 117,000 tons.

Archibald is to be in Detroit the last part of this week and I am holding myself in readiness to meet him there.

Yours very truly,

(Signed) Pat.

CC: Mr. R. O. Hocking.
Mr. Hazen E. Butler.
(In ink:) E. B. 4/12.

(Stamped:) Certified true copy from files.

Butler Brothers,
(Signed) F. J. McArthur,
Treasurer.

Exhibit No. 1370

Inter-Department Correspondence

Butler Brothers

and

Manganiferous Iron Company

Union Trust Building, Cleveland, O.

March 28, 1929.

Mr. Emmett Butler,
c/o Butler Brothers,
Hamm Building, St. Paul, Minnesota.

Dear Dad: I had a talk with Elton Hoyt yesterday afternoon and he talked me out of quoting Ford on any of our grades at less than the full market price. He said the market for standard ores is still a little shaky and that it would be dangerous to quote Ford anything under the full price.

On the Hume quotation, there would be too much danger of the Corporation learning that we were using any other basis for figuring other than that we submit to them. And I'm afraid that our goose would be cooked if Shiras ever heard of it.

In light of the above I am submitting today quotations on Hume, Knickerbocker, Louise, Kevin and Butler silicious at the full season's prices.

Yours affectionately,

(Signed) Pat.

PB: A.

Copy to H. E. Butler.

(Stamped:) Certified true copy from files.

Butler Brothers,
(signed) F. J. McArthur,
Treasurer.

Exhibit No. 1371

Butler Brothers,
Cleveland, Ohio, August 4, 1931.

To Mr. Emmett Butler.
Subject:

I have your letter relative to F. [illegible] Stack's letter to me.

I stopped in Detroit yesterday and called on Ahrens and Newkirk. They did not mention long term sales nor did I. They are interested in a basic ore similar to the one they are now getting from Pickands-Mather, also, a low phos., ore., specifications of which they have not as yet decided.

I believe it would be a dangerous thing to quote below this years market whether it be for this year only or a term of years. For one reason I believe that any price, no matter on what basis, quoted for this year would establish next year's market price. The Ford business is the only open market business left and if this is not maintained I do not know what would become of our long term contracts that are based on a market price. Then also, if we took away the business from Pickands-Mather on a price concession we would incur the wrath of Jim and also give the old line companies an excuse to do likewise. Now that Quinn is practically out of business I believe the ore market can be more closely controlled.

We are the only people that can furnish them a tonnage of low phos., ore and I am of the opinion that we can use this as a club to move our other grades in the same way that Cleveland-Cliffs uses their monopoly on open hearth ore.

I appreciate your anxiety to land this business but I believe it would be a dangerous thing to cut the price in any way whatsoever. We will, however, consult with the Big Four beforehand to assure ourselves that they will not try any such tricks.

Yours very truly,

(Signed) PAT.

(Stamped:) Certified true copy from files.

BUTLER BROTHERS,
(Signed) F. J. MCARTHUR,
Treasurer.

EXHIBIT NO. 1372

BUTLER BROTHERS,
Cleveland, Ohio, March 25, 1931.

To: Mr. Emmett Butler.
Subject:

As I wired you this morning the 1930 prices will be submitted to Ford by the Big Four and ourselves. Oglebay-Norton have been unable to keep Nelson & Associates from making a cut on their product. This cut is supposed to be about fifteen cents a ton. Oglebay-Norton will not ~~cut~~ quote on this grade and will refuse to take a commission on the sale of it. It is the consensus of opinion that too much is at stake to meet this competition and as usual I have agreed to stay in line.

It is our opinion that Ford will not buy from any property that has not shipped before, even at a reduction in price.

We expect action on Ford's bids the first part of the coming week. Copies of our quotations will be sent as soon as I can get them back from Wyman, who is in Detroit at present.

Yours very truly,

(Signed) PAT B.

PB:A
CC: H. E. B., R. O. H.
(Stamped:) Certified true copy from files.

BUTLER BROTHERS,
By (Signed) F. J. MCARTHUR,
Treasurer.

EXHIBIT NO. 1373

Inter-Department Correspondence

BUTLER BROTHERS

AND

MANGANIFEROUS IRON COMPANY

Union Trust Building, Cleveland, O.

MARCH 27TH, 1929.

MR. EMMETT BUTLER,
Butler Brothers,
639 Hamm Building, St. Paul, Minn.

DEAR DAD: I offered Wheeling 100,000 to 150,000 tons of Kevin grade ore at 10¢ off the market. I also told them I would dispose of 60,000 tons of their

Wacootah, taking that in at the market price. Wheeling has already traded 200,000 tons of their ore for 200,000 tons of Cleveland-Cliffs ore—so they are not as interested as they might be. There is a hope that if Wheeling does not want to trade, that the only place Donner can get high alumina is from us on the Cuyuna. That being the case, I am not pressing Wheeling as hard as I might but have to go through motions for Donner's benefit.

Wheeling will be taking offers for long term sales on basic ore sometime before summer. Let me know if you think we want to quote them, what tonnage, what years and what grade.

I think we have lost out at the Rolling Mill. They do not like the high silica.

I am seeing Hoyt this afternoon to find out what we shall quote on manganiferous ore and possibly to get his approval of our offering Hume as a straight iron ore. Also, if we can't quote Kevin 10¢ to 15¢ off without stepping on Bennett's or his corns.

Wired you this afternoon about the manganese in Kevin, having in mind that possibly the Margaret shipments might bring up the manganese in Kevin. The more free manganese the more attractive this ore will be to Ford. I intend going to Detroit on Friday and I think we should hear on the letting by the middle of next week.

Harry Shick will be in the office Tuesday and at that time we should find out about Merritt.

Henry Raymond insists that the silicious market remain the same this year as it did last. That is—$2.25 for 38.50% natural iron.

Yours,

(Signed) PAT.

PB:K
Copy to H. E. Butler.
(Stamped:) Certified true copy from files.

BUTLER BROTHERS,
By (Signed) F. J. MCARTHUR,
Treasurer.

EXHIBIT NO. 1374

BUTLER BROTHERS,
Cleveland, Ohio, April 16, 1935.

To Mr. Emmett Butler,
Subject: Ford Motor Company.

DEAR EMMETT: The Ford Motor Company Inquiries came in today calling for 120,000 tons of basic with phosphorous under .10, and 60,000 tons of high phosphorous ore.

I checked up with Hanna's and Pickands-Mather today and find that there has been no ~~discussion~~ decision as to what this year's price will be, except that there seems to be some difference of opinion as to whether or not the surcharge on freight rates will be absorbed and the same market price named as existed over the past several years.

As discussed with you yesterday, we are getting together a form of contract to submit to the Ford Company covering a period of years on an ore similar to the Hocking Grade, in which we will be protected with regard to variations in labor, supplies and fuel. It is my understanding from our conversation that we can afford to put in a base price of $2.25 on a 50% natural iron in the event that we can arrange a term contract of five years or more. We will proceed with the working up of the general outline of such a proposal and try to get it before Sorenson.

Very truly yours,

(Signed) C. L. WYMAN.

CC R. O. Hocking.
Hazen E. Butler.
(In ink:)
E. B. 4/19.
G. J. H. 4/18/35.
(Stamped:) Certified true copy from files.

BUTLER BROTHERS,
(Signed) F. J. MCARTHUR,
Treasurer.

EXHIBIT No. 1375

APRIL 23, 1935.

Ore prices.
(In ink:) Prices 1935.

Mr. E. B. GREENE, *President,*
Office.

DEAR SIR: Mr. Hoyt called up to-day and after asking if Alex was in town, asked if I would come up to speak with him a minute. He told me of his talk with you last night and the agreement that he would see Mr. Girdler this morning. He said he had just been talking with him for an hour and a half, asking Mr. Girdler if he did not think it would be a good thing for the whole Industry if the emergency freight charge be borne by the buyers of ore. He said that Mr. Girdler told him that if he would get Mr. Block and Mr. Weir to agree that adding the emergency freight to the ore price this year would be of psychological help in getting a better price for steel in the third quarter, that he would be in favor of it. He said that of course Mr. Girdler and he both realized (regardless of the fact that Mr. Wysor is in Bermuda) that he, Hoyt, could not get any such assurance. Mr. Girdler felt that if this were not the case, the increase in freight rate should not be added to the price of ore. Mr. Hoyt then said he would go back and think it over and on parting said to Mr. Girdler: "Well, then, if I announce in the papers that the price of ore is the same as last year, with the ore companies absorbing the increase in freight rate, I can consider that we have sold you a tonnage of ore at last year's price." Mr. Girdler's reply was: "Yes, we have made a deal."

Therefore, Mr. Hoyt said he wanted to announce in the papers this afternoon that the ore price has been set at $4.50 for this season, and asked if that would be alright for our company. I told him that I would have to call you on the telephone, and that it might be that you would prefer to have another talk with Mr. Girdler along the lines of if we are going to absorb this freight they ought to give us an increase in tonnage. Mr. Hoyt felt strongly that this matter must be completed to-day and that you would be in just as good a position to make such a plea after the prices are fixed, with the argument that the ore industry has absorbed $2,500,000 of increased freight rate and ought to get some help. I told him, of course, that is not correct, that nearly 90% of the ore is ownership ore, which naturally has to bear the increase, but he said it is the ore mining end of the industry that is standing it and he thought that was a fair statement. I told him that I felt that you would like to talk with Mr. Girdler before having the price set but he said he thought it was important to get it done immediately. He then went on to further say that if a lower price would bring more business he would be in favor of making some lower price, but he thought we would have to wait until there was a real prospect of getting the larger tonnage and he thought that very likely ore prices will be lower, but that as this is a year when we are mining merely to give employment, and with so little to gain, that it was a bad time to make any change. He suggested that if he did not hear from me by 4 o'clock they would go ahead and announce the price and asked what I thought you would think of that. I said that I felt that would not be the right thing—that you surely should be advised and reiterated that I did not think the delay of a day would make any difference.

HAR:ADP H. A. RAYMOND.

EXHIBIT No. 1376

NATIONAL STEEL CORPORATION,
Grant Building, Pittsburgh, Pa., January 18, 1930.

Mr. GEORGE M. HUMPHREY,
The M. A. Hanna Company,
1300 Leader Building, Cleveland, Ohio.

MY DEAR GEORGE: I return herewith the letters from Earl Hunner, and which are interesting.

Don't you think in view of the very keen interest in the ore situation, and the fact that everybody is after even the smallest properties, that it ought to be a good time to get the price of ore up 25 cents a ton. Even if pig iron and other conditions are not just as good, it seems to me the move should be made, indi-

cating that ore is in a strong position and able to start out on a basis of higher prices.

Very truly yours,

(Signed) ERNEST.

(Pencilled note:)
Letter from E. E. Hunner—January 15, 1930
See "Ore Lands" Mesabi Iron Co.
Letter from E. E. Hunner—January 15, 1930
See Virginia O. M. Co.

EXHIBIT No. 1377

[Copy]

GASPARILLA INN,
Boca Grande, Fla., Feb. 25, 1937.

DEAR ED: There are three things that are somewhat on my mind which I hope you can go over with Henry and the others while I am away for they all require your decision as to policy before we could do very much about them in following them up after you go away.

1. The proposed new Wheeling Steel ore contract about which I have already talked with you.

2. The Otis Steel ore contract. I feel that unless this is worked out before we agree with Wheeling we will be at a disadvantage with Otis. Our present situation is that we have sold no ore in 1937 below market price. Our Republic contract reads as a sale of ore completed in 1936 for the whole ten year period with deliveries to be made during that period on this 1936 sale. This is the same interpretation that has always been given to our J & L sale of ore.

If we negotiate with Otis before completing Wheeling, the concession we make will be from the 1937 market price, whereas if Wheeling is completed first we will be obligated under our present Otis contract to give Otis the amount of the Wheeling concession for Otis' 1937 ore at least, and lose this amount of bargaining advantage.

3. The question of 1937 market price of ore will surely come to a head shortly. This should be settled before there is any chance of Ford buying ore because it is becoming more and more likely that the large order placed by Ford each year at cut prices may become the accepted market price. Our interest in the market price is, of course, very much less than it used to be but this year it is of particular importance because of our Wheeling and Otis negotiations.

An increase in the market price is certainly expected. It is true that a higher market price will increase taxes particularly on the Mesaba range. On the other hand, if the market price is not raised I think that, in Minnesota at least, taxes will be raised anyway and possibly will be related to pig iron prices, instead of ore prices, to our disadvantage. I think a study of this tax feature as it relates to market price should be made.

An increase in the market price would make Republic all the better satisfied with our present contract, in spite of the increases that have to be made for labor costs etc.; also our increase would make our proposed Wheeling and Otis contracts easier to accomplish.

My idea at present is that the increase should probably not be more than 40¢ nor less than 25¢. In this connection the tax feature is, of course, important.

25¢ is a little less than a 10% increase on the f. o. b. mine market price for Mesaba non-bessemer and 40¢ is a little less than 15% increase, I believe.

I think on the present basis of wages and freight and providng there are no further wage or freight increases, our addition to the Republic base price for 1937 will be about 6¢ to 17¢. If social security increases are included for Wheeling and Otis, this addition to last years market price would be greater.

I believe it would be wise to have the increase in market price for 1937 substantially more than we figure the probable increase in the base price to both Republic and J. & L. due to labor and freight changes after allowing for another expected increase in wages this year.

I am sorry this letter is so long but wanted you to know my ideas in the hope they may be helpful to you.

Everything is delightful here. We made no mistake in our choice. As you know, unless needed sooner, I expect to be back at the office Tuesday March 16th.

Sincerely yours,

ALEX. C. BROWN.

(In ink:) Certified True Copy.

E. H. JAYNES,
Secretary, The C. C. I. Co.

EXHIBIT NO. 1378

MARCH 28TH, 1934.

Mr. PATRICK BUTLER,
308 Euclid Avenue, Cleveland, Ohio.

DEAR PAT: I have before me Cliff Wyman's letter of the 26th which states, among other things, that Ford's inquiry for 50,000 tons of ore is out. Now the question arises whether to wait for the other big ore merchants to quote Ford before making our quotation or to attempt to arrange some trade with Ralph Archibald and get the business without the formality of quoting a price. I do not know, of course, whether or not this can be done.

My feeling about the matter is that these 30,000 tons of ore will only add to our expense this year about $40,000. It sometimes occurs to me that it would be better for Butler Brothers to start fixing the market price of ore instead of having our prices fixed so far as we are concerned and then another price fixed so far as they are concerned, as they did in 1933. This whole matter, I think, deserves a great deal of consideration.

Cliff seems to think that Ford would be pleased to get the highest natural combined iron and manganese content that he can. I do not think that we can arrive at the figure of 52.81% that Cliff has set up for the reason that 17% of Hillcrest ore would probably be lost in the mix and the manganese would not show up in the proper proportions in the analysis. I do think we could make a 51%, and possibly a 51.50% natural combined.

Our competition on this business will be Perry Harrison and his Cuyuna Range ore and ore that may be purchased from most any of our Mesaba Range friends to mix with it. For that reason I believe that if any trade arrangement can be worked out so as to cinch this business it would be well to do it.

I think, possibly, this would be a good time to say to our customers, particularly M. M. and Hanna Co., "What are you going to do with this year's business, and what price are you going to put on ore?" They will, no doubt, answer to that that they do not know because they have not had their ore meeting, and stall beyond the date that Ford has fixed to close the bidding, and probably slip in a bid in the meantime. Why not tell them that we want to move tonnage and that we are either going after the Ford business in our own way or they are going to guarantee us an additional tonnage over their minimum equal to that of Ford's inquiries?

You will notice by a statement of our costs that our fixed charges, if we include royalty which we must to a certain extent because of our minimum, is about one half of the total cost of ore to us, that is about 92¢ a ton for production cost, overhead, depreciation and taxes and about the same amount for labor and supply costs.

I am enclosing herewith a forecast of our operations for this year based on the minimum tonnage.

Affectionately,

EB ——— ———.

SUPPLEMENTAL DATA

The following is the narration delivered by Mr. Edwin C. Hill during the showing of the sound, Technicolor moving picture, "Steel, The Servant of Man", before the Temporary National Economic Committee on November 1, 1939.

NARRATION ACCOMPANYING UNITED STATES STEEL CORPORATION'S FOUR-REEL TECHNICOLOR FILM "STEEL—THE SERVANT OF MAN"

REEL I

(1) From the good red earth comes iron ore—the basic element of steel. Can you *imagine* what would happen if a great magnet—suddenly wrenched all steel from our daily life? What would happen to our skyscrapers? What would happen to our homes? What would become of our great bridges? How could we travel? How could we farm? How could we even communicate with one another? What would become of all industry? What, indeed, would become of *all* of us?

(2) Only in a nightmare could such a calamity occur—and so we begin the story of steel, with huge shovels ripping the raw, red iron ore from its ancient beds.

(3) 17 tons at a gulp is the capacity of this hungry giant eating into the bank of ore—a 34,000 pound load made possible by the strength and boundless capacity of steel. This is called the age of electricity. Is it not also the Age of Steel? It's an age of remendous locomotive strength made possible and pressed into usefulness by steel—light weight, stronger railroad cars rolling over ribbons of steel.

(4) Open pit mining is restricted to months when frost is out of the ground. But the year round we find the men of the underground mines, like gnomes wresting from nature, ore lying far beneath the earth's surface—contributing to the steady stream of loaded ore cars flowing between the iron ranges of the Northwest and the northern harbors of the Great Lakes.

(5) Puffing impatiently, the ore boats of the Great Lakes' fleet await their loads under ore bins at the docks.

(6) They must go!. We must get this good red ore to the mills. So down come the loading chutes, like the mouths of a huge prehistoric monster, to pour the ore into the belly of the waiting ore boat.

(7) Up goes the gate and out pours the brown-red stream of the earth which makes steel. Few things have less value than this raw iron ore as we see it now. Yet there are few things of greater value and benefit to our modern civilization when the labor and intelligence of man is applied.

(8) These carriers must work fast during late spring, summer and early fall. While the ice is out, scores of ships in this large lake fleet are constantly on the go. The loading completed, they start in an endless stream for the southern lake ports to feed the hungry blast furnaces of the steel mills to the south.

(9) Three days later, it's the end of the line, and all hands on deck—there's no rest for an ore transport. Two or three hours in port and that's all—as men drive huge grab buckets like iron dragons which snatch great bites of the ore stored in mountains of red earth ready of the blast furnaces.

(10) Riding the cab of a clam-shell bucket along an ore bridge as high as a 6 story building we see the ore picked up from a trough behind the unloaders by another clam-shell and carried across the storage yards, traveling along a giant ore bridge just like the one we're on. Thousands upon thousands of tons of catalogued, registered and practically pedigreed ore pass beneath us. The ant has nothing on the steel business for enough ore must be stored in summer to last through the winter when lake carriers are icebound. Steel's skyline looms before us—a skyline made up of blast furnaces—tall sentinels of the steel plant—which change the ore into molten iron.

(11) And here the cycle of steelmaking really begins—with the first step in the making of iron—an 8-ton skip-hoist dumps into the blast furnace a rich mineral stew of ore, limestone and coke.

(12) We're getting up speed now—Down below on the casting-floor the stage is set. At intervals of six hours the charge smelted down under intense heat is withdrawn and here comes the signal to tap.

(13) Ready for their end of the job—these fellows stab an oxygen torch through the hole, piercing a plug of clay—and here it comes—a writhing stream of molten iron—2600 degrees hot.

(14) Between 150 and 250 tons are tapped in a cast—a hundred tons or so stream down runways of sand and graphite into the first of two huge ladles. Then—the gate is raised and the molten stream flows to a second ladle.

(15) Outside lies the ladle, a Thermos bottle as big as a tank car, lined with brick capable of holding molten iron at the highest possible temperature.

(16) A lot goes on in the twenty minutes that it takes to make a cast—not so much in the six hours between casts. Then there's time to relax. But now another sample must be taken from the golden stream—a test specimen which will tell the steelmaker the quality of his work. It takes skilled men to nurse these monsters—men who know the whims of iron—men who have been feeling the pulse and taking the temperature of liquid metal for a good many years. It's positively uncanny the way these fellows with a single glance at their samples recognize the calibre of the whole batch. And they seem pretty happy with this one.

(17) Now we have molten iron, the first step in the production of steel. This liquid iron goes for a while into huge storage tanks called mixers. We'll come back to this iron soup a little later. But first, the open hearth furnaces of steel.

(18) By far the greatest amount of steel produced in the United States is made in open hearth furnaces such as these.

(19) The ravenous open hearth is never on a diet. It devours good scrap metal—odds and ends of antique flivvers—chunks of old rails—axles that may yet roll again—even chicken wire.

(20) And up on the charging machine, you see the operator handle the huge piece of machinery, so agile that it picks up an eight thousand-pound charging box of scrap, thrusts it into the furnace, twists and turns and rams and charges at the touch of a hand upon a switch.

(21) And now back to that iron soup we left in the storage mixer a moment ago. As the work goes on this molten metal is combined with the melted scrap.

(22) Perched high above, the craneman watches the ladle fill, then guides giant hooks in to carry the ladle down the line to the furnace.

(23) Meanwhile, an old hand at the game waits by the open hearth for the hot metal coming up from the mixer—ready to direct the craneman's pouring of the fiery charge into the blazing furnace. About 50 tons of liquid iron are now added to the melted scrap. And the sheer beauty of this scene never fails to grip the thousands who visit these plants.

(24) Years ago the making of steel was the experienced guesswork of smart old-timers. But today their experience is backed up by the most accurate of scientific instruments.

(25) This is steel in the making.

(26) Throughout every stage of steel's vivid evolution repeated tests are taken. The helper dips his test spoon—spoon, mind you—into the soup—and to the steelmaker it is just that—soup. And this sample, poured into a test mould goes to the laboratory for analysis.

REEL II

(27) These are the craftsmen of *steel*—these and hundreds of thousands like them—men born and raised to the companionship of hot metal—*young* men *learning* their trade—old men grown gray in the university of steel itself—men who know all the moods and fancies and quips and quirks of molten metal—who know how to tame and temper this flaming monster to the service of mankind.

By their watches and their blue filter glasses shall ye know them. A golden glow on their faces, they peer into the open hearth to read the future of this steel as a gypsy reads your future in the tea leaves.

(28) Even as a great chef expertly adds just the right seasoning to his famous dishes, so these expert chefs of the open hearth add the condiments that season steel—in this case, a helping of ferro-manganese. These boys certainly can handle their shovels—they swing and follow through with all the power and grace of a champion golfer. They must hit a certain spot inside that furnace and that, believe me, is quite an art.

(29) On the ranch or in a lumber camp, this means "come and get it or we'll throw it away".—It means Grub!—But in these mills it means: "Pour Steel!" Here are the cindersnappers, jacks of all trades. With rammingrod ready, they wait, while men on the other side prepare the furnace for tapping. Another pinch of this and that from the bins and boxes according to the sure recipes of steel's cookbook. Meanwhile the helper with an oxygen torch burns through the clay which plugs the tapping hole. They're raring to go, these cindersnapper lads, but it takes time to uncork this flask. Just a moment now—only a few more ashes to get out of the way and then the "Go ahead!" will come. It's a welcome signal because the smash of ramming through a heat of steel is always a high light in their day's work. Altogether—there she goes! It's steel—backbone of the

world—steel for axles, springs, girders; steel for bridges, wire, ships, automobiles—magic and marvels from the earth—from the labor and brains of men who serve their fellowmen.

(30) It takes about 15 minutes to fill this ladle. Slag, the scum or flux of limestone, floats on top of the steel, finally overflowing into the slag pot.

(31) Bathed in a red glare, the craneman handles with ease his heavy load of glowing metal—this gigantic ladle, like a huge soup bowl—150 tons of liquid steel. Flames lick through the scum of its surface, a blood-red touch from the seething cauldron.

(32) Stately as a ship, the ladle moves to its position at the pouring platform, ready at the mere touch of the hand to discharge into the waiting ingot moulds.

(33) Skillfully the craneman maneuvers the heavy load to rest, centering the nozzle above the first of the moulds. The stopper is released and out gushes the steel to fill them one by one.

(34) Every little movement has a meaning of its own in steel. Tests for quality such as these are very important. They go to make steel one of the most scientifically-controlled operations in all industry.

Meanwhile, the fascinating work of pouring goes on. Here's a young apprentice in steelmaking, taking a lesson from the older heads of the pouring platform as with an optical pyrometer he measures the temperature of the molten steel—and we are seeing just what he sees through the pyrometer—steel at 2800 degrees hot. Slowly cooling—beautiful to look upon—the ingots sparkle and effervesce in their moulds. When cooled enough, they will be stripped of their most unfashionable jackets.

(35) Another day without an accident. It is now common for months to go by without a single man being injured, so highly developed is modern safety practice.

(36) One of the most thrilling operations in the whole dramatic story of steelmaking is the production of alloy steel in the electric furnace. Inside this hottest of all furnaces, huge electrodes, suspended over the mass of selected scrap slowly creep downward. An electric arc leaps from electrodes to scrap and produces one of the most spectacular sights ever filmed.—Here *is* inferno.

(37) After three hours under this man-made lightning, the scrap is melted and the electrodes purr over the molten steel now ready for the addition of alloys.

(38) Finally the precious soup is cooked, and out of the cauldron pours another heat of stainless steel. Steel for kitchens, for architectural trim, for fine instruments and for laboratories and hospitals, for use wherever a glossy acid and rust-resisting surface contributes to modern industry and to modern living.

(39) Rising before you like a harvest moon is the hungry maw of a Bessemer converter—chief actor in one of the great shows in steel. Closely watching this rising monster are the men who run the show—looking at life and steel from behind shatter-proof glass, thirty feet away from the trio of Bessemer converters mounted on a high platform.

(40) The operator's whistle was the signal which brought the hot iron from the mixer and started it pouring into the mouth of the Bessemer converter. This iron whale, if really hungry, could swallow a score of Jonahs at a gulp, or could find room in its red-hot gullet for a good-sized motor boat. Every night is Fourth of July when the Bessemers go into action—and here's your action, Roman candles lancing the blackness of the night.

(41) The girders of a railroad bridge march past, silhouetted by the licking flames of these beacons of steel. As many of you have often seen, these huge torches flare up in the dark as symbols of steel working for man.

(42) You are seeing it as the steelmaker sees it in gauging the carbon content by the color of the flame. When the flame displays the telltale characteristics, the conversion is complete and the Bessemers are ready to pour the magic metal which first we saw as plain ore, then soft as molten iron, and now transformed to steel for all the needs of man.

(43) Here in the stripping yard is the row of jacketed ingots we left sparkling a moment ago and now cool enough to shed their moulds. Reaching down, the human-like fingers of this martian giant grasp and pry the moulds from ingots weighing between twenty and forty thousand pounds—an impressive sight as the rich, crimson velvety glow emerges from beneath the rising moulds. Steel has no competitor in modern life—no possible substitute. Wherever you look, you encounter examples of its service to man.

(44) The nation's parade of glowing ingots is a barometer of economic conditions and is watched by many who seek to gauge business activity. For, as the ingots go, so goes industrial America.

REEL III

(45) The golden pillars of fire go next to soaking pits for reheating, where they literally soak in a bath of flame which evenly restores their temperature.

(46) That was the signal to send one of these glowing ingots from the soaking pit. It is 2200 degrees hot as you see it now. And we begin to get an idea of the innumerable processes required to make fine steel, and how amazingly economical the finished product is after all this labor and effort. For, after all, this is a hairpin, a thumbtack, a monkey wrench, a rail or a beam in infancy.

(47) Through a mirror directly in front of him, the operator sees the ingot bumping along the conveyor rollers, like a car on a corduroy road—unaware of the punishment to come, as it will be squeezed, pounded and pressed into one of the thousand shapes which meet the demands of industry, The big idea here is to crack off the scale which has formed and to prepare the ingot for the real rough stuff to come.

The ingot is manipulated from a pulpit protected by heavy screening and shatterproof glass, supported by the post partially hiding the ingot.

(48) The roller-man glances at the dials and brings the rolls down—it's a squeeze-play an inch or more at a time until the huge ingot is flattened to a slab about 5 inches thick, ready to be cut like cheese into shorter lengths for further rolling.

(49) In the continuous rolling mill, skilled workers, in pulpits set high up across the floor from each set of rolls, chart the course the slab must follow as they phone dimensions and adjustments from stand to stand. These continuous mills cover so much ground that the traffic lights of a mill are as important as the red and green stop and go lights of a small town.

(50) All clear. The rolls are set and ready. And here it comes. A white hot slab of steel, sliding swiftly and smoothly toward the all-powerful rolls.

(51) The first pass takes off the scale. Then a quarter turn on the turntable sends the slab sideways into the spreader to increase its width. An extra push is needed here to force it through the rolls.

(52) That's only the first step. Farther down the long line the width is checked and then the rapidly transforming slab of steel races on beneath showers of water and steam, to enter the reversing mill, and back and forth and back and forth again it must pass. And this reducing process we don't recommend to the ladies.

(53) It's hard going forthe slab. But it's just another dial-setting and a turning of a switch to the man at the levers. He sits at a control board like the keyboard of an organ, and casually watches the huge rolls do their work. Getting longer and longer, the plate races on to run the gauntlet of the finishing stands, four giant stands in tandem, each one squeezing the plate thinner and thinner.

(54) From the beginning of this pictorial drama of steel, we have seen how machines have been called to the aid of the men who make steel.

(55) These machines of the steel mills are genii more powerful, more incredible than Aladdin ever summoned by rubbing his wonderful lamp. Watch this servant work for Man, his master, machines obedient to the merest touch; some as delicate as the flutter of a butterfly's wing—some as powerful as an avalanche. These same machines, while producing amazingly low-cost steel, have created many new commodities, many new markets—thus providing for countless workers occupations which never existed before.

(56) One of the most interesting of recent inventions, the rocking shear, was suggested by an ordinary rocking chair, perfected in a wooden model which sheared chewing gum instead of steel.

(57) And now watch the result—rocking power—high pressure shear, cutting cold steel plate with incredible ease and accuracy.

(58) Such is the story of steel today—steel plate for use in railroad cars, steamships, bridges, and buildings.

(59) Well, boys, you're doing a swell job and we're getting a real thrill watching you. Before going on let's have a bottle of pop together—Drink hearty!

(60) Moving on in the production of steel we come to the manufacture of sheet steel. Hot-rolled like steel plate, sheet steel is merely rolled thinner and thinner. Then cleaned with acids, it is cold-rolled in coils to even lesser gauges, emerging on the other side of this machine as cold-rolled sheet, for use in automobile fenders, bodies, stoves, refrigerators and the many products of pressed steel.

Further reduced and tin coated, cold-rolled steel has thousands of uses as tin plate.

(61) Here's where the girls come in—as inspectors of the finished plate. These shining surfaces must tempt the vanity of any daughter of Eve. But surely not

this girl's. Oh-Oh! Well, to err is human. It must have been the oversized mirror that did it.

(62) With that little touch of feminine vanity satisfied, she goes back to her work—an artist at her job.

(63) These girls are mighty useful employees in a tin plate mill and their schedule is arranged accordingly—an hour on and 15 minutes off for coffee, tea and rest.

(64) Here we are back again with hot steel, and there's a red-hot rail coming through the first pass taking on its first big impression. Like everything else in steel, this rail was rolled down from an ingot. The rail bar takes more definite shape with each new pass through the rolls. After the first pass, it moves down to the end of the line—across the conveyor table and up on the high line in the middle to an intermediate pass and then across another conveyor table, and down the line at the right to the finishing rolls for its final impression. The finished rail over which the wheels of your train may some day click.

(65) Steel cuts steel—the cold biting through the hot, sawing a rail bar of more than a hundred feet long into standard lengths.

(66) Then these rail-lengths are heat-treated, or Brunorized, as they call it in the steel business, strengthening the rails to withstand drastic changes in temperature, and the pounding of heavy trains. In heating, these rails bend, but in cooling they will straighten out.

(67) We go along now to still another most interesting episode in the fascinating drama of steel production—to still another pictorial chapter in the saga of steel—rolling giant beams. How many people would ever guess that from this 6-foot ingot, a 36-inch I-beam, almost as long as a City block, could be rolled! Hot rolls steam and sizzle, but an operator skillfully trips the switches controlling a pressure of many thousands of pounds. Back and forth under the dripping rolls the ingot passes until it takes on a faint shape—the semblance of an I-beam—suggestion of a girder that may support a bridge or a skyscraper. It's all as easy as falling off a log. Or so it seems as this young man of steel handles the controls, passing the huge form backward and forward, reducing the gauge, shaping the rough beam into an almost finished product, and sending it along down the line on its way to the finishing stands.

(68) There comes the I-beam out of the finishing stand—and we have actually seen how one hundred and fifty feet of strong, sturdy steel can be rolled from a six-foot ingot. The columns and girders with which America builds its future!

(69) The beam slides down the rollers coming to a stop at the saw to be trimmed and cut to length.

(70) They're mighty particular to get things right, these steel men Here they are taking a sample from the hot beam—a test piece—which will go on to the laboratory. But right now they have another use for it—the hot beam sample performs a dual role, serving also as a fireless cooker de luxe for Mike's private coffee pot.

(71) It's too good a thing to keep to himself. So big-hearted Mike calls Powerful Pat to have a sip of the old Java with him. "I accept with thanks," says he—"but don't ever let the wife know you're this good, or she'll be after pinning an apron on you."

REEL IV

(72) Now let's stroll over to the axle forge where immense hammers are pounding like pile-drivers. This machine does the heavy work but man's hand shapes the railroad axle. Packing an awful wallop, this hammer slams down on the helpless round, beating it into shape.

(73) Two crews alternate at the hammer, as each axle is turned. Now the axle is forged from the other end as the giant hammer shapes the collar. See between the hammer blows, the alert intense faces of these men. While the axle is getting its finishing touches, railroad wheels are being turned out in another impressive operation of the modern steel plant. The first thing which will catch your eye will be a red-hot wheel block, as the steel men call it, about to take its place between the two halves of a wheel mould. And then as men and machinery take advantage of the precise moment, the glowing hot block is formed under 20,000,000 pounds of pressure—slowly—very slowly—pressed and flattened and shaped into a blank—something close to a railroad wheel, but not yet the real article, and then with scarce an instant's pause the blank is lifted from mould No. 1, while Mould No. 2 slides slowly and easily to the left and relentlessly grips the victim between its powerful jaws. And then comes the final shaping in the finishing mould, under further terrific pressure. If you thought the first one was a squeezer, watch No. 2.

(74) The throttle of Casey Jones never controlled as much power as these levers which now release the rough wheel and send it on to the caliper man. Only perfection gets by this chap. Then upon emerging, the wheel is ready for finishing—perhaps to convey you, some day, possibly soon, on a journey of your heart's desire.

(75) Here's another chapter in the tale of steel. Coming out of a reheating furnace is a pair of billets—30 ft. lengths of steel about 2 inches square. They, too, were rolled down from an ingot—rolled in a billet mill much like a rail mill. The billets run the gamut of 16 sets of reducing rolls. Each roll reduces the diameter and hastens the rod with ever-increasing speed toward its final reduction. In a moment you'll see it begin to step out, the snail turning into a scared rabbit. Its rate of speed through the rolls is from four to 45 miles an hour, better than a race horse, as its length increases from 30 ft. to almost three quarters of a mile.

(76) These close shots show exactly what takes place, slow at the start—then faster in this intermediate pass—and still its speed increases. If you watch closely, you can see it dart through these rolls.

(77) And at last there it comes—whistling into the coiler—to be tamed into a shapely coil of finished rod.

(78) These marvelous machines of steel pull their own taffy—heavy wire from rod as we see here in these big dies.

(79) But we're not through yet with this metallic candy-pulling. Now the rapidly thinning wire goes to a huge drum which is a real taffy-puller—and our wire gets tenuous and more tenuous.

(80) The operator most accurately measures the gauge, for a thousandth of an inch counts in the kind of accuracy that is standard in wire drawing.

(81) The rest of the story of wire making is one reduction after another, a hundredth or a thousandth of an inch at a time. Finer and finer the tough steel wire is drawn.

(82) On the wire goes darting, twisting, weaving to and fro, through as many as 11 dies, until finally it comes out, all bright and silvery, almost as fine as silken thread.

(83) And so wire is made for countless demands, for bed springs, nails, fence, telephone and telegraph lines, more than 90,000 uses represented in our modern civilization.

(84) Production of pipe and tubes is another important phase of steel production. The finest kind of tube is seamless. Starting as a hot round, a reheated cylinder of solid steel is hustled along and rammed into the seamless piercing mill. By means of great pressure, created by whirling cone-shaped rolls forcing the malleable steel forward over a piercing point, the round emerges on the other side as a seamless tube—a hollow pipe of hot-rolled steel.

(85) It's remarkable how perfectly this round of golden hot steel is pierced, expanded and finished to meet specifications—one of the most interesting operations to be found in any of these great steel mills.

(86) And so, mile after mile of seamless tube finds its place in the pipe lines which serve us for heat, fuel, water and the other necessaries of modern life.

(87) Let's turn from the colorful, dramatic sight of the mill to the quiet of the laboratories, and to the scientist. Much of what you have seen would not have been possible without the research man, constantly working into the future of Steel and devising new ways for it to serve its master, man. Here we see Steel's anatomy photographed and studied.

(88) Here's a piece of Cor-ten steel getting the tensile test. That dark colored piece the metallurgist has just placed in the machine is being subjected to the severest possible tension. See how remarkably a piece of steel can be stretched—almost like rubber. Fifty, sixty, seventy thousand pounds of pull per square inch and more to find the breaking point. It's amazing that steel can stand such punishment. Finally, it does break under much greater strain than ever will be exacted in its actual use.

(89) With little furnaces such as these, the scientist worked with patient study and experiment to develop stainless steel—whose shining surface reflects the research and the effort devoted to its production.

(90) This is the fascinating world of steel. Many are those who walk its paths. The miner, the engineer, the craneman, the melter, the roller, the scientist—hundreds of thousands among the men of steel. More than 500,000 men are engaged in making steel, over half of them in the companies of United States Steel alone. Men who are confident and competent in their work, men who can return to their homes and firesides proud and happy in the knowledge of their contribution to society.

(91) Beyond the door of a furnace we see nothing but hot gases and bubbling metal. But the man who makes steel sees there streamlined trains streaking smoothly across the continent, great ships carrying the products of the farm and factory to the four corners of the earth—sailing the seven seas with the promise of world peace through world trade, with commerce and profit to all.

(92) He sees concrete roads made from the slag of blast furnaces, busy with cars and trucks of steel.

(93) He sees beyond that bubbling steel, the wire lines of modern telephone and telegraphic communication, and the high towers carrying electric power to home and industry.

(94) He sees modern farming made possible by steel machinery and fencing.

(95) Countless oil derricks stretching their structures to the heavens—gaunt frameworks of steel—landmarks of another of America's great industries. Big and little things, he sees—the big little conveniences of modern cookery, stainless steel utensils and kitchen sinks.

(96) Hammers and little nails that play a big part—or the melodious vibration of a finely drawn steel piano string—he sees acid resisting cans for food preservation of a fine steel watch spring set in a steel chassis.

(97) And he sees tall buildings of steel rearing their proud heads almost above the clouds.

(98) Great bridges spanning rivers and harbors, bringing commerce and its people closer and closer together.

(99) All these and more the man of steel sees—New eras—New standards of living—as the world moves forward with the men who make steel.

The following letter is included at this point in connection with testimony on p. 10382 et seq., supra.

PICKANDS MATHER & COMPANY,
November 9, 1939.

HON. JOS. C. O'MAHONEY,
Chairman, Temporary National Economic Committee,
Congress of the United States, Washington, D. C.

DEAR SENATOR: At the close of the hearing on Friday last, November 3rd, you made the suggestion that I might be able to recommend to the Committee what business men ought to be free to do without fear of violating the anti-trust laws for the purpose, as you stated at the hearing, of perhaps aiding the Committee in its desire to promote a greater degree of prosperity for business as well as for the rank and file of the people of the United States.

Frankly, my experience gained for the most part in the iron ore business does not qualify me to answer these broad economic questions, particularly as far as the many industries outside of our own are concerned. However, I hope you will believe that I have given very careful consideration to your request as it affects the iron ore industry in the hope that I might be able to answer your question with some practical business suggestions. Several of the investigators of the Department of Justice have spent many weeks in the various offices concerned and have had at their disposal for study all of the contracts and agreements under which these businesses have been conducted, and in addition, a group of the industry has spent three days on the witness stand in an effort to convey to your Committee a practical and general understanding of the iron ore business and how it functions. The trade practices of the iron ore industry are the results of many factors and considerations which have grown up over many years and which the producers and consumers of iron ore have taken for granted in the running of their respective businesses. I, personally, have no fault to find with the results accomplished, believing as I do absolutely, that there has existed for many years and now exists the free and keen competition which I believe to be necessary in the long run for promoting the prosperity which your Committee is endeavoring to secure. Therefore, I have come to the conclusion from my knowledge of the iron ore industry that I am unable to suggest, in answer to your direct question, a more specific definition of what "business men ought to be free to do—" than is now contemplated in the basic purposes of the so-called anti-trust laws.

Respectfully yours,

(Signed) ELTON HOYT 2ND.

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